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## **FUYUAN WORLDWIDE LIMITED**

### **富源國際有限公司**

*(Incorporated with limited liability in the British Virgin Islands)*

**U.S.\$140,000,000 7.0 per cent. Guaranteed Bonds due 2023**

**Unconditionally and Irrevocably Guaranteed by**

**LUSHANG**

**魯商集團**

**(consolidated and form a single series with the existing U.S.\$180,000,000 7.0 per cent. Guaranteed Bonds due 2023 issued on 28 August 2020 after the Registration Conditions with respect to both the Original Bonds and the Additional Bonds are complied with)**

**SHANDONG COMMERCIAL GROUP CO., LTD.**

**山東省商業集團有限公司**

*(Incorporated with limited liability in the People’s Republic of China)*

**(Stock Code: 40363)**

## **PUBLICATION OF THE OFFERING CIRCULAR**

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”).

Please refer to the offering circular dated 8 June 2021 (the “**Offering Circular**”) appended herein in relation to the issuance of the Additional Bonds. As disclosed in the Offering Circular, the Additional Bonds are intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) (“**Professional Investors**”) and have been listed on the Hong Kong Stock Exchange on that basis.

**Notice to Hong Kong Investors:** Each of Fuyuan Worldwide Limited 富源國際有限公司 (the “**Issuer**”) and Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司) (the “**Guarantor**”) confirms that the Additional Bonds are intended for purchase by Professional Investors only and have been listed on the Hong Kong Stock Exchange on that basis. Accordingly, each of the Issuer and the Guarantor confirms that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of the Issuer and the Guarantor, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Offering Circular.

Hong Kong, 5 August 2021

*As at the date of this announcement, the sole director of the Issuer is Mr. XU Feng (徐峰).*

*As at the date of this announcement, the directors of the Guarantor are Mr. GAO Honglei (高洪雷), Mr. LIU Shouliang (劉守亮), Mr. LI Lin (李林), Mr. LIU Dehua (劉德華), Mr. WANG Yuanliang (王遠良), Mr. LI Yuming (李玉明) and Ms. LI Xue (李雪).*

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION INTO THE UNITED STATES

**IMPORTANT: You must read the following disclaimer before continuing.** The following disclaimer applies to the offering circular (the “Offering Circular”) following this page, and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Offering Circular) as a result of such access. You acknowledge that the access to the Offering Circular is intended for use by you only and you agree you will not forward or otherwise provide access to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES AND THE GUARANTEE DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES AND THE GUARANTEE MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”).

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of your Representation:** In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to the Managers (as defined in the Offering Circular), the Issuer and the Guarantor that: (1) you and any customers you represent are not in the United States, and that the electronic mail address that you gave the Managers and to which this e-mail has been delivered is not located in the United States, and (2) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to any offering of securities described in the Offering Circular do not constitute, and may not be used in connection with, an offer or solicitation by or on behalf of any of the Issuer, the Guarantor or the Managers in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Manager or any affiliate of a Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager or such affiliate on behalf of the Issuer in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Managers or any person who controls the Managers nor any director, officer, employee nor agent of the Managers or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Managers.

**You are responsible for protecting against viruses and other destructive items.** Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

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

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

**FUYUAN WORLDWIDE LIMITED****富源国际有限公司***(Incorporated with limited liability in the British Virgin Islands)***U.S.\$140,000,000 7.0 per cent. Guaranteed Bonds due 2023  
Unconditionally and Irrevocably Guaranteed by**

**(to be consolidated and form a single series with the existing U.S.\$180,000,000 7.0 per cent. Guaranteed Bonds due 2023 issued on 28 August 2020 after the Registration Conditions with respect to both the Original Bonds and the Additional Bonds are complied with)**

**SHANDONG COMMERCIAL GROUP CO., LTD.****山東省商業集團有限公司***(Incorporated with limited liability in the People's Republic of China)***Issue Price: 99.985 per cent.****plus accrued interest from (and including) 28 February 2021 to (but excluding) 11 June 2021**

The U.S.\$140,000,000 7.0 per cent. guaranteed bonds due 2023 (the “**Additional Bonds**”) will be issued by Fuyuan Worldwide Limited 富源國際有限公司 (the “**Issuer**”) and will be unconditionally and irrevocably guaranteed (collectively with the guarantee given for the Original Bonds (as defined below), the “**Guarantee**”) by Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司) (the “**Guarantor**” or “**Company**”), a company incorporated in the People's Republic of China (the “**PRC**”) with limited liability. The Additional Bonds shall constitute a further issuance of, and be consolidated and form a single series with, the existing U.S.\$180,000,000 7.0 per cent. guaranteed bonds due 2023 (the “**Original Bonds**”, and together with the Additional Bonds, the “**Bonds**”) issued on 28 August 2020 (the “**Original Bonds Issue Date**”) after the Registration Conditions with respect to both the Original Bonds and the Additional Bonds are complied with. The Additional Bonds have the same terms and conditions as the Original Bonds in all respects except for the issue date, the first payment of interest on them and the timing for compliance with the requirements set out in these Conditions in relation to the NDRC Post-issue Filing and the Cross-Border Security Registration or for the exercise of a redemption for a No Registration Event. The total principal amount of the Additional Bonds to be issued is US\$140,000,000. Upon the issue of the Additional Bonds, the aggregate principal amount of outstanding Additional Bonds and Original Bonds will be US\$320,000,000.

The Original Bonds bear interest on their outstanding principal amount from and including the Original Bonds Issue Date and the Additional Bonds will bear interest on their outstanding principal amount from and including 28 February 2021, in each case at the rate of 7.0 per cent. per annum. Interest on the Bonds is payable semi-annually in arrear on 28 February and 28 August in each year, commencing on 28 February 2021 in the case of the Original Bonds and 28 August 2021 in the case of the Additional Bonds. All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands or the PRC, or any political subdivision or any authority therein or thereof having power to tax, to the extent described under “*Terms and Conditions of the Bonds – Taxation*”.

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

The Guarantor entered into a deed of guarantee with respect to the Original Bonds on 28 August 2020 and will enter into a deed of guarantee (each deed of guarantee, as amended and/or supplemented from time to time, a “**Deed of Guarantee**”) with respect to the Additional Bonds on or around 11 June 2021 (the “**Additional Bonds Issue Date**”). The Guarantor is required to file with the State Administration of Foreign Exchange of the PRC or its local counterparts (“SAFE”) each Deed of Guarantee within 15 Registration Business Days (as defined in the Terms and Conditions) after execution of such Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (《跨境擔保外匯管理規定》) (匯發[2014] 29號) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014 (each, a “**Cross-Border Security Registration**”). The Guarantor shall use its best endeavours to complete each Cross-Border Security Registration and obtain a registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before each Registration Deadline (being 120 Registration Business Days after the Original Bonds Issue Date in the case of the Original Bonds and the day falling 120 Registration Business Days after the Additional Bonds Issue Date) and shall comply with all applicable PRC laws and regulations in relation to the Guarantee.

Pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044號)) (the “**NDRC Circular**”) issued by the National Development and Reform Commission of the PRC or its local counterparts (“NDRC”) on 14 September 2015 which came into effect on the same day, the Guarantor has registered the issuance of the Bonds with the NDRC and obtained a certificate from NDRC on 2 March 2020 evidencing such registration of the Original Bonds and on 13 April 2021 evidencing such registration of the Additional Bonds. The Guarantor is required to file the requisite information and documents with the NDRC within 10 Registration Business Days after the Original Bonds Issue Date in the case of the Original Bonds and within 10 Registration Business Days after the Additional Bonds Issue Date in the case of the Additional Bonds in accordance with the NDRC Circular and comply with all applicable PRC laws and regulations in connection with the Bonds. For consequences of non-registration under SAFE and failure to complete the relevant filings under the NDRC Circular, see “*Risk Factors – Risks Relating to the Bonds and the Guarantee – Any failure to complete the relevant filings under the NDRC Circular and the relevant registration under SAFE within the prescribed time frame following the completion of the issue of the Bonds may have adverse consequences for the Issuer, the Guarantor and/or the investors of the Bonds*”.

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 28 August 2023 (the “**Maturity Date**”). The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands or the PRC. See “*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Taxation Reasons*”. Furthermore, at any time following the occurrence of a Relevant Event (as defined in the Terms and Conditions), the holder of any Original Bond or Additional Bonds (as the case may be) will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Original Bonds or Additional Bonds (as the case may be) on the Put Settlement Date (as defined in the Terms and Conditions) at 101 per cent. (in the case of a redemption for a Change of Control (as defined in the Terms and Conditions)) or 100 per cent. (in the case of a redemption for a No Registration Event (as defined in the Terms and Conditions)) of their principal amount, together in each case with any accrued interest up to but excluding such Put Settlement Date. See “*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Relevant Event*”.

For a more detailed description of the Bonds, see “*Terms and Conditions of the Bonds*” beginning on page 49.

The Bonds will be issued in the registered form in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

**Investing in the Bonds involves risks. See “Risk Factors” beginning on page 15 for a discussion of certain factors to be considered in connection with an investment in the Bonds.**

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

The Original Bonds are listed on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”), effective from 31 August 2020, and represented by the stock code 40363. Application will be made to the Hong Kong Stock Exchange for the listing of the Additional Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (“**Professional Investors**”) only and such permissions is expected to become effective on or about three business days in Hong Kong after the Consolidation Date (as defined in the Supplemental Trust Deed) and the whole series of the Bonds will be represented by the stock code 40363 after such permission has become effective. This Offering Circular is for distribution to Professional Investors only.

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

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

The Original Bonds are represented initially by interests in a global certificate (the “**Original Global Certificate**”) and the Additional Bonds will be represented initially by interests in a global certificate (the “**Additional Global Certificate**”) and together with the Original Global Certificate, the “**Global Certificate**”), in each case in registered form which will be registered in the name of a nominee of, and shall be deposited with, a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in the relevant Global Certificate, definitive certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

**Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners****Zhongtai International****Shenwan Hongyuan Securities (H.K.) Limited****Guosen Securities (HK)****Joint Lead Manager and Joint Bookrunner****SDG Securities (HK)**

Offering Circular dated 8 June 2021



## NOTICE TO INVESTORS

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

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

Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and the Guarantor's subsidiaries taken as a whole (collectively, the "**Group**") and the Guarantee and the Bonds which is material in the context of the issue, offering, sale and distribution of the Additional Bonds (including all information which is required by applicable laws and which, according to the particular nature of the Issuer, the Guarantor, the Bonds and the Guarantee, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer, the Guarantor and the Group and the rights attaching to the Guarantee and the Bonds); (ii) the statements contained in this Offering Circular, are true and accurate in all material respects and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and to the Group, honestly and reasonably held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Bonds or the Guarantee, the omission of which would, in the context of the issue and offering of the Bonds make any statement, opinion or intention expressed in this Offering Circular misleading; (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements in this Offering Circular; (vi) this Offering Circular does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (vii) the statistical, industry and market-related data and forward-looking statements included in this Offering Circular, are based on or derived or extracted from sources which the Issuer or the Guarantor believes to be accurate and reliable in all material respects.

The Issuer and the Guarantor have prepared this Offering Circular solely for use in connection with the proposed offering of the Additional Bonds and giving of the Guarantee described in this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of Zhongtai International Securities Limited, Shenwan Hongyuan Securities (H.K.) Limited, Guosen Securities (HK) Brokerage Company Limited and SDG Securities (HK) Limited (the "**Managers**"), the Issuer or the Guarantor to subscribe for or purchase any of the Additional Bonds. The distribution of this Offering Circular and the offering of the Additional Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Additional Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Additional Bonds and the Guarantee, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the

United Kingdom, Hong Kong, the PRC, Singapore, the British Virgin Islands and Japan and to persons connected therewith. For a description of certain further restrictions on offers and sales of the Additional Bonds, and distribution of this Offering Circular, see “*Subscription and Sale*”. By purchasing the Additional Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular. This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, the Additional Bonds. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular or any documents referred to in this Offering Circular.

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

This Offering Circular is being furnished by the Issuer, the Guarantor, in connection with the offering of the Additional Bonds and is exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Additional Bonds. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer, the Guarantor and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than the consideration of an investment in the Additional Bonds offered by this Offering Circular is prohibited. By accepting delivery of this Offering Circular each investor is deemed to have agreed to these restrictions.

None of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers has independently verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted, by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Bonds and the Guarantee. Nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers that any recipient of this Offering Circular should purchase the Additional Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on the

Managers, the Trustee, the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer and the Guarantor and the merits and risks involved in investing in the Additional Bonds. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

To the fullest extent permitted by law, none of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers accepts any responsibility for the contents of this Offering Circular and assumes any responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers or on their behalf in connection with the Issuer, the Guarantor or the Group, or the issue and offering of the Additional Bonds. Each of the Managers, the Trustee and the Agents and their respective affiliates, directors, employees, agents, representatives, officers or advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers undertakes to review the results of operations, financial condition or affairs of the Issuer, the Guarantor or the Group during the life of the arrangements contemplated by this Offering Circular or to advise any investor or potential investor of the Additional Bonds of any information coming to the attention of the Managers, the Trustee or the Agents or their respective affiliates, directors, employees, agents, representatives, officers or advisers.

**IN CONNECTION WITH THIS OFFERING, EACH MANAGER (THE “STABILISING MANAGER”) OR ANY PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER MAY OVER-ALLOT ADDITIONAL BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE(S) OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE ADDITIONAL BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE ADDITIONAL BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE ADDITIONAL BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.**

In connection with the offering of the Additional Bonds, the Managers and/or their respective affiliates, or affiliates of the Issuer, the Guarantor, may act as investors and place orders, receive allocations and trade the Bonds for their own account and such orders, allocations or trading of the Bonds may be material. These entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer, the Guarantor, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering of the Additional Bonds. Accordingly, references herein to the offering of the Additional Bonds should be read as including any offering of the Additional Bonds to the Managers and/or their respective affiliates, or affiliates of the Issuer, the Guarantor as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Bonds may be impacted.

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets*

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

Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own legal, business and tax advisers as needed to make its investment decision and determine whether it is legally able to purchase the Bonds under applicable laws or regulations.

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

### **Industry and Market Data**

Market data and certain industry forecasts used throughout this Offering Circular have been obtained based on, among other sources, internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed by the Issuer and the Guarantor to be reliable and accurate but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or their respective affiliates, directors, employees, agents, representatives, officers or advisers makes any representation as to the correctness, accuracy or completeness of that information complied within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

### **Presentation of Financial Information**

This Offering Circular contains consolidated financial information of the Guarantor as at and for the years ended 31 December 2018, 2019 and 2020, which has been extracted from the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2019 (the “**Guarantor’s 2019 Audited Consolidated Financial Statements**”) and as at and for the year ended 31 December 2020 (the “**Guarantor’s 2020 Audited Consolidated Financial Statements**”, together with the Guarantor’s 2019 Audited Consolidated Financial Statements, the “**Guarantor’s Audited Consolidated Financial Statements**”) which are included elsewhere in this Offering Circular.

Such audited consolidated financial statement were prepared and presented in accordance with Accounting Standards for Business Enterprises in the PRC (“**PRC GAAP**”). The Guarantor’s 2019 Audited Consolidated Financial Statements have been audited by Jonten Certified Public Accountants LLP (中天運會計師事務所) (“**Jonten**”), the previous independent auditors of the Guarantor, and the Guarantor’s 2020 Audited Consolidated Financial Statements have been audited by China Audit Asia Pacific Certified Public Accountants LLP (中審亞太會計師事務所) (“**CAAP**”), the current independent auditors of the Guarantor. PRC GAAP is substantially in line with International Financial Reporting Standards (“**IFRS**”), except for certain modifications which reflect the PRC’s unique circumstances and environment. For a summary of certain differences, see “*Summary of Certain Differences between PRC GAAP and IFRS*”.

## CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

In this Offering Circular, the term “**Issuer**” refers to of Fuyuan Worldwide Limited 富源國際有限公司, and the “**Guarantor**”, the “**Company**” and the “**Group**” refers to Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司) itself or Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司) and its consolidated subsidiaries, as the context requires.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “**PRC**” and “**China**” are to the People’s Republic of China (excluding Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan); all references to the “**United States**” and “**U.S.**” are to the United States of America; all references to “**PRC Government**” are to the people’s government of the PRC; all references to “**Hong Kong**” are to the Hong Kong Special Administrative Region of the People’s Republic of China; all references to “**Renminbi**”, “**RMB**” and “**CNY**” are to the lawful currency of the PRC; and all references to “**USD**”, “**U.S.\$**” and “**U.S. dollars**” are to the lawful currency of the United States of America.

This Offering Circular contains translation of certain Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise specified, where financial information in relation to the Guarantor has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of RMB6.5250 to U.S.\$1.00 (the noon buying rate in New York City on 31 December 2020 as set forth in the weekly H.10 statistical release of the Board of Governors of the Federal Reserve System). Further information regarding exchange rate is set forth in “Exchange Rates” in this Offering Circular. No representation is made that the Renminbi amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all, or vice versa.

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

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



## FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made certain forward-looking statements in this Offering Circular. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, operating income and profitability, planned projects and other matters as they relate to the Issuer, the Guarantor and/or the Group discussed in this Offering Circular regarding matters that are not historical fact. Some of these statements can be identified by forward-looking terms, such as “anticipate”, “target”, “believe”, “can”, “would”, “could”, “estimate”, “expect”, “aim”, “intend”, “may”, “plan”, “will”, or similar words. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer, the Guarantor or by any third party) involve known and unknown risks, including those disclosed under “Risk Factors”, uncertainties and other factors that may cause the actual results, performance or achievements of the Issuer, the Guarantor or the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

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

The factors that could cause the actual results, performances and achievements of the Issuer, the Guarantor or any member of the Group to be materially different include, among others:

- the Group’s ability to successfully implement its business plans and strategies;
- various business opportunities that the Group may pursue;
- financial condition, performance and business prospects of the Group;
- changes in the competition landscape in the industries where the Group operates;
- the Group’s capital expenditure plans and its ability to carry out those plans;
- access and cost of capital and financing;
- any changes in the laws, rules and regulations of the PRC Government and the People’s Government of Shandong Province and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of the Group’s business;
- general political and economic conditions, including those related to the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which the Group operates;
- fluctuations in prices of and demand for products and services that the Group provides;
- macroeconomic measures taken by the PRC Government to manage economic growth;
- natural disasters, industrial action, terrorist attacks and other events beyond the control of the Group;
- changes in the global economic conditions; and
- other factors, including those discussed in “Risk Factors”.

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## SUMMARY

*The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety, including the section entitled “Risk Factors”, before making an investment decision.*

### Overview

The Group is a leading state-owned conglomerate based in Shandong Province, the PRC. Founded in 1992, the Group engages primarily in retail business, pharmaceutical business and health and wellness properties business, and operates under a strong brand portfolio, consisting primarily of “INZONE (銀座)”, “FREDA (福瑞達)” and “LUSHANG (魯商)”. The Group also expands its footprints in cultural tourism, education, healthcare, media business, financial services and e-commerce and several other businesses. As a Shandong SASAC-controlled entity, the Group consisted of 41 subsidiaries as at 31 December 2020, including two publicly-listed subsidiaries in the PRC, namely Inzone Group Co., Ltd. (銀座集團股份有限公司, 600858.SH) and Lushang Health Industry Development Co., Ltd. (魯商健康產業發展股份有限公司, 600223.SH). With a proven track record, the Group has received numerous awards and recognitions, including being ranked 152nd in “Top 500 Chinese Enterprises in 2017 (2017中國企業500強)” and 65th in “Top 500 Service Companies in China in 2017 (2017中國服務企業500強)”, respectively, in terms of operating income by China Association of Enterprises (中國企業聯合會) and China Entrepreneur Association (中國企業家協會). Set forth below is a summary of each of the Group’s business segments:

- **Retail Business.** Retail business is the Group’s core business. The Group is a leading retail business operator in Northern China. It ranked first among all retail business operators in Shandong Province in terms of operating income by China General Chamber of Commerce (中國商業聯合會) and China National Commercial Information Centre (中華全國商業信息中心) in 2018 and ranked first among all chain store operators in Shandong Province in terms of sales volume by China Chain Store & Franchise Association (中國連鎖經營協會) in 2019. As at 31 December 2020, it operated 177 department stores, 204 convenience stores, eight homeware stores, 61 electrical appliance stores, five shopping centres and six 4S sales outlets mainly under the brands “INZONE (銀座)” and “Uni-Mart (統一銀座)”. These stores are located across all 16 municipalities in Shandong Province, as well as nearby cities in Henan Province, Hebei Province and Beijing.
- **Pharmaceutical Business.** The Group’s pharmaceutical business is engaged in the research and development, manufacture and sale and distribution of a broad range of pharmaceutical and healthcare products. The Group’s key products include western and Chinese medicines for neck pain relief and cold treatment, medical supplies, health supplements, chemical raw materials and skincare products. Its products are sold through an extensive sales and distribution network nationwide. The Group is dedicated for years in research and development. It has a strong track record in developing products, as well as a robust research and development product pipeline. As at 31 December 2020, the Group obtained 64 approvals from the China Food and Drug Administration (國家食品藥品監督管理總局) for new drug certificate applications and registered 67 patents for new drugs in the PRC.
- **Health and Wellness Properties Business.** The Group’s health and wellness properties business involves the development and sale of residential and commercial properties. As at 31 December 2020, the Group had a total of 43 projects at various stages of development, primarily located in Jinan, Qingdao, Harbin and Chongqing. The Group has developed and launched three major product series to the market, namely, “Lushang City Square (魯商城市廣場)”, “Lushang Garden

Residence (魯商花園住宅)” and “Lushang Ecological Villa (魯商生態別墅)”, which have been well received by its customers. As at 31 December 2020, the Group had a land bank with a total site area of approximately 1,193,300 sq.m.

- Other Businesses. The Group also engages in other businesses, primarily including cultural tourism, education, healthcare, media businesses and financial services and e-commerce business. Revenues from each business historically recorded a relatively small percentage as compared to the Group’s total operating income.

The following table sets forth a breakdown of the total operating income from each business segment of the Group in absolute amount and as a percentage of the Group’s total operating income for the periods indicated:

	Year ended 31 December					
	2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions)		(RMB in millions)		(RMB in millions)	
Retail business . . . . .	27,184	71.6	27,414	68.8	18,629	52.0
Pharmaceutical business . . .	858	2.3	1,039	2.6	1,477	4.1
Health and wellness properties business . . . . .	7,963	21.0	9,250	23.2	12,139	33.9
Other businesses . . . . .	1,950	5.1	2,129	5.4	3,557	9.9
<b>Total operating income . . .</b>	<b>37,956</b>	<b>100.0</b>	<b>39,833</b>	<b>100.0</b>	<b>35,802</b>	<b>100</b>

The Group has maintained a stable growth. For the years ended 31 December 2018, 2019 and 2020, total operating income from the Group’s business operation was RMB37,956 million, RMB39,833 million and RMB35,802 million, respectively. As at 31 December 2018, 2019 and 2020, the total assets of the Group were RMB94,104 million, RMB103,386 million and RMB117,357 million, respectively.

### Competitive Strengths

The Group believes that the following strengths are important to its success and future development:

- Strong support from the Shandong Provincial Government;
- The leader of retail business operation in Shandong Province with distinct brand identity;
- Multi-format retailing to meet diverse customer demands;
- Stable and long term relationships with high-quality brand owners;
- Diversified funding sources and prudent asset and debt management strategy; and
- Sound corporate governance with experienced management.

### Business Strategies

The Group intends to focus on the following business strategies:

- Develop into a leading conglomerate in Shandong Province as well as a renowned full service group in China by leveraging synergies among the Group’s different business segments and promoting innovation;

- Further implement major national and regional development strategies and optimise the business models of the Group's various businesses to support industrial transformation and public services in Shandong Province;
- Further expand the existing businesses through promoting innovation, enhancing management and other measures;
- Deepen its footprint in Shandong market and expand the coverage of the Group's geographical business landscape to nearby regions; and
- Continue optimise the structure of its talent pool.



## THE OFFERING

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

<b>Issuer</b> .....	Fuyuan Worldwide Limited 富源國際有限公司.
<b>Guarantor</b> .....	Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司).
<b>Bonds</b> .....	U.S.\$140,000,000 7.0 per cent. Guaranteed Bonds due 2023 (the “ <b>Additional Bonds</b> ”), to be consolidated and form a single series with the existing U.S.\$180,000,000 7.0 per cent. guaranteed bonds due 2023 issued on 28 August 2020 (the “ <b>Original Bonds</b> ” and together with the Additional Bonds, the “ <b>Bonds</b> ”) after the Registration Conditions with respect to both the Original Bonds and the Additional Bonds are complied with.
<b>Issue Price</b> .....	The Additional Bonds will be issued at 99.985 per cent. of their principal amount plus accrued interest from (and including) 28 February 2021 to (but excluding) 11 June 2021.
<b>Form and Denomination</b> .....	The Bonds will be issued in registered form and in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
<b>Additional Bonds Issue Date</b> .....	11 June 2021.
<b>Interest</b> .....	The Original Bonds will bear interest on their outstanding principal amount from and including the Original Bonds Issue Date and the Additional Bonds will bear interest on their outstanding principal amount from and including 28 February 2021, in each case at the rate of 7.0 per cent. per annum, payable semi-annually in arrear in equal instalments on 28 February and 28 August in each year, commencing on 28 February 2021 in the case of the Original Bonds and 28 August 2021 in the case of the Additional Bonds.
<b>Maturity Date</b> .....	28 August 2023.
<b>Status of the Bonds</b> .....	The Bonds will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) ( <i>Negative Pledge</i> )) unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Issuer under the Bonds will, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) ( <i>Negative Pledge</i> ), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

<b>Status of the Guarantee</b> .....	The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds. Its obligations in that respect are contained in each Deed of Guarantee. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
<b>Negative Pledge</b> .....	The Bonds will contain a negative pledge provision as further described in Condition 4(a) ( <i>Negative Pledge</i> ) of the Terms and Conditions.
<b>Use of Proceeds</b> .....	The net proceeds from the offering of the Additional Bonds will be used for refinancing certain offshore indebtedness, retail business development and offshore business development. See “ <i>Use of Proceeds</i> ”.
<b>Events of Default</b> .....	The Bonds will contain certain events of default as further described in Condition 9 ( <i>Events of Default</i> ) of the Terms and Conditions.
<b>Cross-Default</b> .....	The Bonds will contain a cross-default provision in respect of present or future indebtedness for or in respect of moneys borrowed or raised or any present or future guarantee and/or indemnity thereof of the Issuer or the Guarantor or of any of their respective Subsidiaries which equals or exceeds U.S.\$25 million or its equivalent. See Condition 9(c) ( <i>Cross-Default</i> ) of the Terms and Conditions.
<b>Taxation</b> .....	All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands or the PRC or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC up to and including the aggregate rate applicable on 25 August 2020 (the “ <b>Applicable Rate</b> ”), the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If (i) the Issuer is required to make a deduction or withholding by or within the British Virgin Islands, or (ii) the Issuer or, as the case may be, the Guarantor is required to make a deduction or withholding by or within the PRC in excess of the Applicable Rate, the Issuer, or as the case may be, the Guarantor shall pay such additional amounts (“**Additional Tax Amounts**”) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in the circumstances set out in Condition 8 (*Taxation*) of the Terms and Conditions.

**Final Redemption** . . . . . Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.

**Redemption for Relevant Events** . . . . . Following the occurrence of a Relevant Event, the holder of any Bond will have the right, at such holder’s option, to require the Issuer to redeem all but not some only of that holder’s Bonds on the Put Settlement Date (as defined in the Terms and Conditions) at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together in each case with any accrued interest up to but excluding such Put Settlement Date, as further described in Condition 6(c) (*Redemption for Relevant Event*) of the Terms and Conditions.

a “**Change of Control**” occurs when:

- (i) Shandong SASAC together with any other person(s) directly or indirectly Controlled by the central government of the PRC cease to directly or indirectly Control the Guarantor;
- (ii) the Guarantor ceases to directly or indirectly hold or own 100 per cent. of the issued share capital of the Issuer; and
- (iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons, acting together, who is or are not Controlled by the central government of the PRC directly or indirectly;

**“Control”** means (i) the ownership or control of more than 50 per cent. of the voting rights of the issued share capital of the relevant person or (ii) the right to appoint and/or remove all or the majority of the members of the relevant person’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; the term **“Controlled”** has meanings correlative to the foregoing;

a **“No Registration Event”** occurs when (i) in respect of the Original Bonds only, the Registration Conditions have not been satisfied in full on or before the Registration Deadline in relation to the Original Bonds, or (ii) in respect of the Additional Bonds only, the Registration Conditions have not been satisfied in full on or before the Registration Deadline in relation to the Additional Bonds;

a **“person”** includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity);

**“Registration Conditions”** means the receipt by the Trustee of the Registration Documents as set forth in Condition 4(d);

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

**“Shandong SASAC”** means the Shandong Provincial State-owned Assets Supervision and Administration Commission (山東省人民政府國有資產監督管理委員會).

**Redemption for Taxation Reasons . . . . .** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice (a **“Tax Redemption Notice”**) to the Bondholders in accordance with Condition 16 (which shall be irrevocable) and in writing to the Trustee and the Principal Paying Agent, at their principal amount (together with any interest accrued to the date fixed for redemption) if the Issuer or, if the Guarantee was called, the Guarantor (as the case may be) satisfies the Trustee immediately prior to the giving of such notice that

- (i) the Issuer has (or, if the Guarantee were called, the Guarantor) or will become obliged to pay Additional Tax Amounts (as defined in Condition 8) as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC, or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 25 August 2020, and
- (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due, as further described in Condition 6(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions.

**Further Issues** ..... The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them and the timing for compliance with the requirements set out in these Conditions in relation to the NDRC Post-issue Filing and the Cross-Border Security Registration or for the exercise of a redemption for a No Registration Event) and so that such further issue shall be consolidated and form a single series with the outstanding Bonds, as further described in Condition 15 (*Further Issues*) of the Terms and Conditions.

**Trustee** ..... China Construction Bank (Asia) Corporation Limited.

**Principal Paying Agent, Registrar  
and Transfer Agent** ..... China Construction Bank (Asia) Corporation Limited.



<b>Clearing Systems</b> .....	The Original Bonds are represented initially by interests in the Original Global Certificate and the Additional Bonds will be represented initially by interests in the Additional Global Certificate, in each case which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in this Offering Circular, definitive certificates for the Bonds will not be issued in exchange for interests in the Global Certificate.
<b>Clearance and Settlement</b> .....	<p>The Additional Bonds have been accepted for clearance through Euroclear and Clearstream under temporary Common Code 235124459 and the temporary ISIN for the Additional Bonds is XS2351244590.</p> <p>On the Consolidation Date, the Additional Bonds will be consolidated into and form a single series with the Original Bonds and the whole series of the Bonds will thereafter be cleared through Euroclear and Clearstream under the Common Code 219957548 and the ISIN XS2199575486.</p>
<b>Notices and Payment</b> .....	So long as the Global Certificate is held on behalf of Euroclear or Clearstream, any notice to the Bondholders shall be validly given by the delivery of the relevant notice to Euroclear or Clearstream, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Terms and Conditions.
<b>Governing Law</b> .....	English law.
<b>Jurisdiction</b> .....	Exclusive jurisdiction of Hong Kong courts.
<b>Listing</b> .....	The Original Bonds are listed on the Hong Kong Stock Exchange, effective from 31 August 2020, and represented by the stock code 40363. Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Additional Bonds by way of debt issues to Professional Investors only. Such permission is expected to become effective on or about three business days in Hong Kong after the Consolidation Date and the whole series of the Bonds will be represented by the stock code 40363 after such permission has become effective.

**Selling Restrictions** . . . . . The Bonds have not been and will not be registered under the Securities Act or under any state securities laws of the United States, are being offered only outside the United States in reliance of Regulation S of the Securities Act and will be subject to customary restrictions on transfer and resale. See “*Subscription and Sale*”.

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## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information of the Guarantor as at and for the years ended 31 December 2018, 2019 and 2020, which has been extracted from the Guarantor's Audited Consolidated Financial Statements which are included elsewhere in this Offering Circular. The Guarantor's 2019 Audited Consolidated Financial Statements were prepared and presented in accordance with the PRC GAAP and have been audited by Jonten, the previous independent auditors of the Guarantor. The Guarantor's 2020 Audited Consolidated Financial Statements were prepared and presented in accordance with the PRC GAAP and have been audited by CAAP, the current independent auditors of the Guarantor. PRC GAAP is substantially in line with IFRS, except for certain modifications which reflect the PRC's unique circumstances and environment. For a summary of certain differences, see *"Summary of Certain Differences between PRC GAAP and IFRS"*.

In 2019, the Ministry of Finance of the PRC promulgated certain new accounting standards and new requirements in relation to the format of financial statements (the **"New Accounting Standards and Requirements"**). In addition, the Guarantor has adopted different measurement model in relation to investment properties (the **"New Measurement Models"**) since 2019. The Guarantor's 2019 Audited Consolidated Financial Statements were prepared and presented in accordance with the New Accounting Standards and Requirements and the New Measurement Models. As a result, the presentation of certain accounting items in the Guarantor's 2019 Audited Consolidated Financial Statements may not be comparable to the financial figures in the financial statements of the Guarantor for the previous periods. For details of the New Accounting Standards and Requirements and the New Measurement Models and their impact on the Guarantor's 2019 Audited Consolidated Financial Statements, see *"Notes to the Financial Statements – Note 6 Other significant changes on accounting policies and accounting estimates, correction of the accounting errors from previous term and other adjustments – 6.1 Changes in accounting policies"* of the Guarantor's 2019 Audited Consolidated Financial Statements.

### Summary Consolidated Balance Sheet Data

	As at 31 December			
	2018	2019	2020	
	(RMB)	(RMB)	(RMB)	(U.S.\$)
	(audited)	(audited)	(audited)	(unaudited)
	(in thousands)			
<b>Current assets</b>				
Monetary capital . . . . .	9,801,801.6	10,675,329.2	13,486,474.7	2,066,892.7
Financial assets measured at fair value through current profit and loss . . . . .	3,821,931.8	3,975,058.6	5,625,828.7	862,196.0
Notes receivable . . . . .	103,253.6	263,373.7	187,374.9	28,716.5
Accounts receivable . . . . .	841,226.1	849,783.5	945,190.6	144,856.8
Accounts receivables financing . . . . .	–	–	256,811.2	39,358.0
Advances to suppliers . . . . .	5,562,606.7	5,013,510.6	5,414,043.2	829,738.4
Other receivables . . . . .	6,618,165.6	6,472,331.2	6,438,697.4	986,773.5
Inventories . . . . .	39,433,657.7	47,269,721.1	50,027,211.3	7,667,005.6
Non-current assets due within one year . . . . .	–	–	599,800.0	91,923.4
Other current assets . . . . .	2,259,044.5	1,947,437.0	1,905,848.3	292,084.0
<b>Total current assets . . . . .</b>	<b>68,441,687.8</b>	<b>76,466,545.0</b>	<b>84,887,280.3</b>	<b>13,009,544.9</b>
<b>Non-current assets</b>				
Grant of loans and advances . . . . .	557,426.1	436,887.7	474,211.6	72,676.1
Debt investments . . . . .	–	62,391.5	37,630.0	5,767.0
Available-for-sale financial assets . . . . .	1,427,571.8	2,039,295.6	1,240,143.9	190,060.4
Held-to-maturity investments . . . . .	229,842.5	186,428.1	732,846.5	112,313.6
Long-term receivables . . . . .	463,339.9	1,118,494.4	658,595.6	100,934.2
Long-term equity investments . . . . .	556,046.0	611,937.7	1,519,088.1	232,810.4
Other equity instruments investments . . . . .	–	90,000.0	110,000.0	16,858.2
Investment properties . . . . .	6,163,994.7	6,652,696.7	6,988,423.7	1,071,022.8
Fixed assets . . . . .	8,969,921.1	9,255,785.2	10,097,256.8	1,547,472.3

	As at 31 December			
	2018	2019	2020	
	(RMB)	(RMB)	(RMB)	(U.S.\$)
	(audited)	(audited)	(audited)	(unaudited)
		(in thousands)		
Construction in progress . . . . .	1,481,309.1	509,990.5	1,355,179.6	207,690.4
Intangible assets . . . . .	2,501,439.5	2,402,517.5	5,084,732.2	779,269.3
Development expenses . . . . .	—	2,005.8	10,502.9	1,609.6
Goodwill . . . . .	1,920,469.7	1,920,469.7	2,087,128.4	319,866.4
Long-term prepaid expenses . . . . .	868,236.4	699,584.2	817,371.7	125,267.7
Deferred income tax assets . . . . .	432,375.0	442,846.4	405,190.2	62,098.1
Other non-current assets . . . . .	90,536.2	488,492.3	850,975.5	130,417.7
<b>Total non-current assets . . . . .</b>	<b>25,662,508.0</b>	<b>26,919,823.3</b>	<b>32,469,276.7</b>	<b>4,976,134.4</b>
<b>Total assets . . . . .</b>	<b>94,104,195.7</b>	<b>103,386,368.3</b>	<b>117,356,557.0</b>	<b>17,985,679.2</b>
<b>Current liabilities</b>				
Short-term loans . . . . .	11,273,188.6	13,975,735.2	15,471,929.2	2,371,176.9
Absorption of deposits and interbank deposit . . . . .	27,087.3	—	2,827.6	433.3
Deposit funds . . . . .	200,000.0	—	—	—
Notes payable . . . . .	4,335,934.3	5,777,845.0	6,902,789.7	1,057,898.8
Accounts payable . . . . .	8,931,490.4	9,161,847.5	10,144,752.7	1,554,751.4
Advances from customers . . . . .	15,615,616.1	17,111,813.0	2,012,495.1	308,428.4
Contract liabilities . . . . .	—	—	18,599,922.6	2,850,562.9
Financial assets sold for repurchase . . . . .	272,750.0	880,000.0	340,150.0	52,130.3
Employee remuneration payable . . . . .	345,141.9	413,194.6	537,498.0	82,375.2
Taxes and surcharges payable . . . . .	792,719.7	959,206.1	1,268,739.0	194,442.8
Other payables . . . . .	5,058,985.4	7,043,143.7	8,788,625.9	1,346,915.9
Non-current liabilities maturing within one year . . . . .	12,387,675.5	9,817,626.6	15,639,558.6	2,396,867.2
Other current liabilities . . . . .	—	29,409.7	727,134.6	111,438.3
<b>Total current liabilities . . . . .</b>	<b>59,240,589.2</b>	<b>65,169,821.4</b>	<b>80,436,423.0</b>	<b>12,327,421.2</b>
<b>Non-current liabilities</b>				
Long-term loans . . . . .	9,166,267.7	8,416,404.3	7,947,789.9	1,218,052.1
Bonds payable . . . . .	5,411,293.4	7,046,143.0	3,925,387.4	601,591.9
Long-term payables . . . . .	982,826.4	2,076,793.5	1,710,107.3	262,085.4
Long-term employee remuneration payable . . . . .	6,662.6	4,179.7	2,675.4	410.0
Estimated liabilities . . . . .	63,172.5	54,521.6	41,818.3	6,408.9
Deferred income . . . . .	218,272.3	195,345.5	203,287.5	31,155.2
Deferred income tax liabilities . . . . .	579,682.7	589,683.8	559,092.6	85,684.7
Other non-current liabilities . . . . .	—	—	—	—
<b>Total non-current liabilities . . . . .</b>	<b>16,428,177.7</b>	<b>18,383,071.3</b>	<b>14,390,158.6</b>	<b>2,205,388.3</b>
<b>Total liabilities . . . . .</b>	<b>75,668,766.9</b>	<b>83,552,892.8</b>	<b>94,826,581.6</b>	<b>14,532,809.4</b>
<b>Owners' equity</b>				
Paid-in capital . . . . .	2,097,767.5	2,097,767.5	2,097,767.5	321,496.9
Other equity instruments . . . . .	6,300,178.4	5,910,178.4	3,860,178.4	591,598.2
Capital reserve . . . . .	551,079.9	618,508.8	999,957.5	153,250.2
Other comprehensive income . . . . .	260,695.8	324,087.2	99,866.8	15,305.3
Special reserves . . . . .	1,454.6	—	41.7	6.4
Surplus reserves . . . . .	615,772.7	569,163.8	615,505.5	94,330.4
General risk reserves . . . . .	—	222.9	133.2	20.4
Undistributed profits . . . . .	2,539,544.8	2,532,493.0	1,913,278.8	293,222.8
<b>Total equity attributable to owners of the parent company . . . . .</b>	<b>12,366,493.7</b>	<b>12,052,421.4</b>	<b>9,586,729.5</b>	<b>1,469,230.6</b>
Minority equity . . . . .	6,068,935.1	7,781,054.1	12,943,245.9	1,983,639.2
<b>Total owner's equity . . . . .</b>	<b>18,435,428.8</b>	<b>19,833,475.5</b>	<b>22,529,975.5</b>	<b>3,452,869.8</b>
<b>Total liabilities and owner's equity . . . . .</b>	<b>94,104,195.7</b>	<b>103,386,368.3</b>	<b>117,356,557.0</b>	<b>17,985,679.2</b>

# Summary Consolidated Income Statement Data

	For the year ended 31 December			
	2018	2019	2020	
	(RMB)	(RMB)	(RMB)	(U.S.\$)
	(audited)	(audited)	(audited)	(unaudited)
	(in thousands)			
<b>Total operating income</b> . . . . .	<b>37,955,644.4</b>	<b>39,832,847.2</b>	<b>35,802,100.8</b>	<b>5,486,912.0</b>
Operating income . . . . .	37,873,014.6	39,767,182.9	35,705,479.1	5,472,104.1
Interest income . . . . .	80,386.4	64,043.2	93,149.4	14,275.8
Handling charges and commissions income . . . . .	2,243.5	1,621.1	3,472.4	532.2
Total operating costs . . . . .	(37,046,636.5)	(39,144,190.2)	(35,980,871.5)	(5,514,309.8)
Operating costs . . . . .	(29,909,440.1)	(31,485,046.0)	(27,353,166.3)	(4,192,056.1)
Interest expenses . . . . .	(18,943.7)	(23,190.8)	(84,526.0)	(12,954.2)
Handling charges and commissions expenses . . . . .	(58.4)	(729.7)	(967.6)	(148.3)
Taxes and surcharges . . . . .	(800,170.3)	(932,624.6)	(1,076,190.6)	(164,933.4)
Selling expenses . . . . .	(4,095,302.2)	(4,166,379.5)	(4,301,341.0)	(659,209.4)
General and administrative expenses . . . . .	(1,361,786.7)	(1,417,827.5)	(1,822,638.9)	(279,331.6)
Research and development expenses . . . . .	(129,132.6)	(146,068.1)	(212,113.7)	(32,507.8)
Financial expenses . . . . .	(731,802.4)	(972,323.9)	(1,129,927.4)	(173,169.0)
Other income . . . . .	56,264.2	78,081.9	181,424.1	27,804.5
Investment income . . . . .	479,474.1	661,430.1	866,944.4	132,865.0
Gains from changes in fair value . . . . .	(95,080.4)	27,110.1	322,541.7	49,431.7
Losses from credit impairment . . . . .	—	(13,405.1)	(72,052.1)	(11,042.5)
Losses from asset impairment . . . . .	(410,210.6)	(271,237.7)	(67,541.6)	(10,351.2)
Gain/(loss) from asset disposal . . . . .	4,908.0	(24,577.7)	6,089.9	933.3
<b>Operating profit</b> . . . . .	<b>944,363.3</b>	<b>1,146,058.7</b>	<b>1,058,635.7</b>	<b>162,243.0</b>
Non-operating income . . . . .	79,884.2	46,190.1	59,528.1	9,123.1
Non-operating expenses . . . . .	(115,721.7)	(77,932.8)	(248,580.8)	(38,096.7)
<b>Total profit</b> . . . . .	<b>908,525.7</b>	<b>1,114,316.1</b>	<b>869,583.0</b>	<b>133,269.4</b>
Income tax expenses . . . . .	(513,774.4)	(459,066.5)	(627,159.7)	(96,116.4)
<b>Net profit</b> . . . . .	<b>394,751.3</b>	<b>655,249.5</b>	<b>242,423.3</b>	<b>37,153.0</b>
Attributable to owners of the parent company . . . . .	94,930.7	389,336.7	267,054.6	40,927.9
Minority shareholders' gains and losses . . . . .	299,820.6	265,912.8	(24,631.4)	(3,774.9)
Net of tax for other comprehensive income . . . . .	(238,746.5)	72,439.7	(278,601.5)	(42,697.6)
Attributable to owners of the parent company . . . . .	(365,393.9)	63,391.4	(224,220.3)	(34,363.3)
Attributable to minority shareholders . . . . .	126,647.4	9,048.3	(54,381.2)	(8,334.3)
<b>Total comprehensive income</b> . . . . .	<b>156,004.8</b>	<b>727,689.2</b>	<b>(36,178.2)</b>	<b>(5,544.6)</b>
Attributable to owners of the parent company . . . . .	(270,463.2)	452,728.0	42,834.3	6,564.6
Attributable to minority shareholders . . . . .	426,468.0	274,961.2	(79,012.5)	(12,109.2)



## Summary Consolidated Cash Flow Statement Data

	For the year ended 31 December			
	2018	2019	2020	
	(RMB)	(RMB)	(RMB)	(U.S.\$)
	(audited)	(audited)	(audited)	(unaudited)
		(in thousands)		
Net cash flows from operating activities . . . . .	2,845,999.8	1,912,356.3	3,992,159.9	611,825.3
Net cash flows from investing activities . . . . .	(3,647,029.0)	(949,646.5)	(775,307.6)	(118,821.1)
Net cash flows from financing activities . . . . .	2,417,678.4	587,998.9	(914,190.8)	(140,105.9)
Effect of fluctuation in exchange rate on cash and cash equivalents . . . . .	2,717.5	1,037.5	(10,241.0)	(1,569.5)
<b>Net increase in cash and cash equivalents . . .</b>	<b>1,619,366.6</b>	<b>1,551,746.1</b>	<b>2,292,420.6</b>	<b>351,328.8</b>
Balance of cash and cash equivalents at the beginning of the period . . . . .	4,746,411.3	6,365,777.9	7,917,524.0	1,213,413.6
<b>Balance of cash and cash equivalents at the end of the period . . . . .</b>	<b>6,365,777.9</b>	<b>7,917,524.0</b>	<b>10,209,944.6</b>	<b>1,564,742.5</b>

## Other Financial Data

The following table sets forth certain other financial data of the Group as at the dates and for the periods indicated.

	As at and for the year ended 31 December		
	2018	2019	2020
EBITDA <sup>(1)</sup> (RMB in million) . . . . .	2,865.1	2,951.0	3,789.5
Total Debt <sup>(2)</sup> (RMB in millions) . . . . .	39,221.3	41,332.7	44,694.8
EBITDA interest coverage ratio <sup>(3)</sup> . . . . .	4.70	3.69	3.85
Total liabilities/total assets (per cent.) . . . . .	81.92	80.82	80.80

### Notes:

- (1) EBITDA for any period is calculated as total profit before interest expenses, depreciation of fixed assets, amortization of intangible assets, long-term deferred expenses and depreciation of investment properties. EBITDA is a widely used financial indicator of a company's ability to service and incur debt, EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses under the amount by which EBITDA exceeds capital expenditures and other charges. The Company has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Group's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.
- (2) Total debt consists of short-term loans, non-current liabilities due within one year, long-term loans, long-term payables and bonds payable. Investors should not compare the Group's total debt to total debt presented by other companies because not all companies use the same definition.
- (3) EBITDA interest coverage ratio is calculated by dividing EBITDA by interest expenses. Investors should not compare the Group's interest expenses to interest expenses presented by other companies because not all companies use the same definition.

## RISK FACTORS

*An investment in the Additional Bonds is subject to a number of risks. Prior to making any investment decision, investors should carefully consider all of the information contained in this Offering Circular, and in particular, the risks and uncertainties described below. The following describes some of the significant risks relating to the Group, its business, the market in which the Group operates and the Bonds. Some risks may be unknown to the Issuer or the Company and other risks, currently believed to be immaterial, could in fact be material. Any of these could materially and adversely affect the business, financial condition, results of operations or prospects of the Group or the value of the Bonds. The Issuer and the Company believe that the risk factors described below represent the principal risks inherent in investing in the Additional Bonds, but the ability of the Issuer and the Company to pay interest, principal or other amounts on or in connection with any Bonds may be affected by some factors that may not be considered as significant risks by the Issuer and the Company based on information currently available to the Issuer and the Company or which the Issuer and the Company are currently unable to anticipate. All of these factors are contingencies which may or may not occur and the Issuer or the Company is not in a position to express a view on the likelihood of any such contingency occurring.*

*This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The actual results of the Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular.*

*Neither the Issuer nor the Company represents that the statements below regarding the risk factors are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

### **Risks relating to the Group's Business**

***The Group's business, financial condition, results of operations and prospects are heavily dependent on the level of economic development in the PRC, in particular, Shandong Province, and policies of relevant central and local governments.***

The Group is a leading state-owned conglomerate based in Shandong Province, the PRC, focusing mainly on retail, pharmaceutical and health and wellness properties businesses. The Group's business and operations are primarily concentrated in Shandong. As at 31 December 2020, 448 out of 461 stores of the Group were based in Shandong Province. Therefore, its business, financial condition, results of operations and prospects have been and will continue to be heavily dependent on the level of economic development of China, in particular, Shandong Province.

The economic conditions in the PRC generally and in Shandong Province in particular have affected, and will continue to affect the Group's business. The Group's results of operations are sensitive to changes in overall economic and political conditions that affect consumer spending in the PRC. The retail industry, in particular, is very sensitive to broad economic changes, and retail purchases tend to decline during economic downturns. There are a number of factors that are beyond the Group's control, including interest rates, recession, inflation and deflation, property prices and availability, consumer credit availability and terms, availability of consumer finance, tax rates and policy and unemployment trends influencing consumer confidence and spending. The domestic and international political environment, including military conflicts and political instability, may also affect consumer confidence and spending and may lead to a general reduction in the level of consumer spending which could in turn materially and adversely affect the Group's growth and profitability.

In recent years, there has been a slowdown in the growth of China's economic development as evidenced by a decrease in PRC's GDP annual growth rate. According to the National Statistics Bureau of the PRC, the annual growth rate of China's GDP in 2015 slowed down to 6.9 per cent. compared to 7.3 per cent. in 2014, and it further decreased to 6.7 per cent. in 2016. In 2017, the

annual growth rate of China's GDP was 6.9 per cent., and it decreased to 6.6 per cent. in 2018. In 2019, the annual growth rate of China's GDP slowed down to 6.1 per cent., and it further decreased to 2.3 per cent. in 2020. Shandong Province has similarly experienced steady but slowing economic growth in recent years. According to preliminary data published by Shandong Provincial Statistics Bureau (山東省統計局), the annual growth rate of Shandong Province's GDP in 2015 slowed down to 8.0 per cent. compared to 8.7 per cent. in 2014, and it further decreased to 7.6 per cent. in 2016. In 2017, the annual growth rate of Shandong Province's GDP was 7.4 per cent., and it decreased to 6.4 per cent. in 2018. In 2019, the annual growth rate of Shandong Province's GDP slowed down to 5.5 per cent., and it further decreased to 3.6 per cent. in 2020. In particular, the recent outbreak of the novel coronavirus disease ("COVID-19") has adversely affected, and may continue to adversely affect, the level of economic development in Shandong Province and the PRC. See "– The Group's business may be affected by natural disasters, epidemics and other acts of God, including the recent COVID-19 pandemic." There can be no assurance that the level of economic development in China and Shandong Province in particular will continue to grow at the rates seen in recent years, and it is unclear how the economic development in Shandong Province will be affected by a perceivable slowdown in the growth of the PRC economy. Any continuing slowdown in the economic development in Shandong Province may decrease the demand for the Group's products and services, and adversely affect the Group's business, financial condition, results of operations and prospects.

Meanwhile, the relevant government policies regarding retail, pharmaceutical and health and wellness properties businesses and other businesses the Group operate also have a major impact on the Group's business and growth prospects. For example, since 2005, the PRC Government has from time to time introduced various measures to curtail property speculation in response to concerns over, among other things, the increases in property investments and property prices and the overheating of the property market, which could in turn materially and adversely affect the Group's growth and profitability. Meanwhile, although in recent years, the government has introduced various policies to encourage the development of the Shandong Peninsular Blue Economic Zone and the cooperation in the Bohai Economic Rim, there can be no assurance that the PRC Government will maintain these favourable policies in promoting the development of Shandong Province. Any discontinuation or unfavourable change in such policies may adversely affect the Group's business, financial condition and results of operations.

***The Group has a diversified business portfolio operating in multiple industries under a complex corporate structure and it is exposed to risks and challenges that are not faced by companies with a single business line.***

The Group has a number of subsidiaries operating in multiple industries. As a controlled entity of the Shandong Provincial State-owned Assets Supervision and Administration Commission ("Shandong SASAC"), the Group consisted of 41 subsidiaries as at 31 December 2020, including two publicly-listed subsidiaries in the PRC, namely Inzone Group Co., Ltd. (銀座集團股份有限公司, 600858.SH) and Lushang Health Industry Development Co., Ltd. (魯商健康產業發展股份有限公司, 600223.SH). Through these subsidiaries, the Group primarily engages in retail business, pharmaceutical business and health and wellness properties business. The Group also expands its footprints in cultural tourism, education, healthcare, media business, financial services and e-commerce business and several other businesses. Due to the diverse characteristics of its subsidiaries, the Group faces challenges different from companies with a single business line. In particular:

- the Group is exposed to business, market and regulatory risks relating to different industries, markets and geographic areas, and may from time to time expand its businesses to new industries, markets and geographic areas in which it has limited operating experience. Success in such businesses requires the Group to devote substantial resources to monitor changes in these different operating environments; and

- successful operation of the Group's subsidiaries requires an effective management and corporate governance system. As the Group continues to grow its businesses in different industries, the Group's operations may become more complex, which would increase the difficulty of implementing its management and corporate governance system.

Any inefficiency in the management of various subsidiaries within the Group may have a material and adverse impact on the Group's business, financial condition and results of operations.

***The Group's business operations are subject to extensive regulation at various levels of government, and any failure to comply with applicable laws, rules and regulations, including obtaining any necessary qualifications, permits or approvals for its operations may adversely affect the Group.***

Certain business activities of the Group, such as retail, pharmaceutical and health and wellness properties businesses are extensively regulated in the PRC. The operation of these business activities requires a number of approvals, licences and permits from different governmental authorities, which may also take time to obtain all of these approvals and certificates. Governmental authorities in China have broad discretion in implementing and enforcing applicable laws and regulations and in granting the approvals, licences, permits and certificates necessary for the Group to conduct its business. Failure to obtain the necessary approvals, licences or permits in a timely manner could result in delay or suspension of business operations, and a failure to obtain the necessary approvals, licences or permits may subject the relevant entities to regulatory or administrative penalties. Governmental authorities may also adjust existing regulations or promulgate new regulations from time to time. The Group may encounter problems in obtaining or renewing the permits, licences, certificates and government authorisations necessary to conduct its business and may be unable to comply with new laws, regulations or policies.

In addition, to ensure the restrictions and conditions of relevant business permits, licences and certificates are fulfilled, governmental authorities normally conduct regular or special inspections, investigations and inquiries. If any significant non-compliance is found by the governmental authorities, the Group's permits, licences and certificates may be suspended or revoked, and it may receive fines or other penalties, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

In light of the strategic importance of the Group's business and operations to Shandong, the Group has received substantial support from the Shandong Provincial Government with respect to industrial restructuring, resource allocation, and policies relating to investment and financing activities, which is critical to the Group's business operation. The government support received by the Group primarily includes favourable policies, business opportunities, capital contribution, government subsidies and grant. However, there is no assurance that the Shandong Provincial Government will continue to provide support to the Group or that the existing or other types of government support will not be adjusted or terminated due to changes in government policies or otherwise. If any favourable incentive or government support which is currently available to the Group is reduced or discontinued in the future, the Group's business, financial condition and results of operations would be materially and adversely affected.

***Shandong Provincial Government may exert significant influence on the Group, and could cause the Group to make decisions, take actions or invest in or operate in businesses or projects which may not be in the Group's best interests or may not maximise the Group's profits.***

The Company is beneficially controlled and owned by the Shandong Provincial Government with Shandong SASAC as its registered controlling shareholder. As its controlling shareholder, Shandong SASAC participates in and closely monitors the Group's decision-making process for key projects,

reviews the Group's development strategy and investment plans and appoints, and conducts annual appraisals on, the directors and senior management of the Company. The Company's senior management and Shandong SASAC have regular in-depth discussions regarding key investment projects, and essential appraisal procedures are conducted before investment decisions are taken. Because of the involvement of Shandong SASAC in the affairs of the Group as its controlling shareholder, there is no assurance that Shandong SASAC will not interfere with the business and operations of the Group, and any such interference may have a material adverse effect on the Group's business, financial position, results of operations, financial performance and prospects.

In addition, the Shandong Provincial Government may also exert significant influence on the Group's major business decisions and strategies, including the scope of its operations, investment decisions and dividend policy. There is no assurance that Shandong SASAC and the Shandong Provincial Government would always make decisions in the Group's best interests or with the aim of maximising the Group's profits. The Shandong Provincial Government may use its ability to influence the Group's business and strategy in a manner which is beneficial to Shandong as a whole but which may not necessarily be in the Group's best interests. For example, the Group is designated by the Shandong Provincial Government to set up and operate a number of educational institutions in the Shandong Province on a non-profit basis. Shandong Provincial Government may also change its policies, plans, preferences, views, expectations, projections, forecasts and opinions, as a result of changes in the economic, political and social environment, its projections of population and employment growth in Shandong Province. Any such change may have a material adverse effect on the Group's business, financial condition, results of operations and prospects. Moreover, the controlling relationship between the Company and its controlling shareholder Shandong SASAC and its beneficial owner the Shandong Provincial Government, does not necessarily correlate to, or provide any assurance as to the Issuer's and the Group's financial conditions. The repayment obligations under the Bonds remain the sole obligations of the Issuer and/or the Group.

***The Group's retail business is highly competitive.***

The Group derives a high percentage of its operating income from retail business. For the years ended 31 December 2018, 2019 and 2020, operating income generated from the Group's retail business was RMB27,184.4 million, RMB27,414.4 million and RMB18,629.1 million, respectively, representing 71.6 per cent., 68.8 per cent. and 52.0 per cent., respectively, of the Group's total operating income for the same periods. For the years ended 31 December 2018, 2019 and 2020, profit generated from the Group's retail business was RMB5,561.0 million, RMB5,480.6 million and RMB4,511.0 million, representing 70.3 per cent., 65.8 per cent. and 53.4 per cent., respectively, of the Group's total profit for the same periods.

The retail industry in China is highly competitive. The Group faces competition from other online and offline domestic and international retailers that offer a similar range of products and from direct sales by the brand owners or their authorized distributors, and also indirectly from shopping malls, hypermarkets, specialty retailers, discount stores and other forms of retail business in the areas where the Group currently operates, in particular, in Shandong Province and where the Group may enter. The Group competes with other online and offline retailers in China based on, among other things:

- the brand recognition and store image;
- the selling price and discount available of the similar or same consumer products;
- the location and size of a store;
- the reputation, mix and quality of the brands and products offered;
- the availability of differentiated products;
- the quality of customer service;

- the ability to understand and respond to customer demand in a timely manner;
- the ability to build and maintain customer loyalty; and
- the financial and managerial resources the Group's competitors may have.

To the extent that the Group fails to compete effectively in its existing and new markets due to any of these factors, the Group's business and results of operations may be adversely affected.

***The Group may not be able to effectively manage the expansion and growth of its retail business.***

The Group has an extensive network of retail stores within Shandong Province. As at 31 December 2020, the Group operated 177 department stores, 204 convenience stores, eight homeware stores, 61 electrical appliance stores, five shopping centres and six 4S sales outlets across all 16 municipalities in Shandong Province, as well as nearby cities in Henan Province, Hebei Province and Beijing.

To further increase the Group's market share and grow the Group's business operations, the Group may continue to evaluate the geographic coverage of its current retail stores in the PRC, open different types of retail stores, and optimise the Group's retail stores by closing down underperforming stores and opening stores at competitive cost. The success of the expansion of the Group's retail store network depends on a number of factors, including, without limitation:

- the Group's ability to identify sites for new stores and successfully negotiate purchase or lease agreements for these sites on terms acceptable to the Group;
- the Group's ability to identify, and the availability of, suitable strategic acquisition or investment targets;
- the availability of financing for the Group's acquisitions, investments or other strategic transactions;
- the Group's ability to maintain or develop strategic cooperation relationships with domestic and international leading suppliers; and
- the Group's ability to respond to the changes in the retail industry in China.

Even if the Group is able to expand its network of retail stores, the Group's ability to generate sales or profits from such retail stores may be affected by the Group's ability to, among other things:

- successfully develop and execute specific business strategy for each individual store;
- successfully integrate the new stores with the Group's existing operations and achieve related synergies;
- maintain adequate management and financial resources for the Group's expanded operations;
- adapt to the evolving competitive environment which may be different from what the Group is familiar with;
- adapt and grow the Group's operational and management systems, including its supply chain system and information technology systems, to continue to accommodate an expanded network of stores;
- hire, train and retain skilled personnel; and



- effectively control and manage the Group's costs, particularly its procurement costs and expenses related to rent, logistics, human resources and marketing.

Failure to effectively manage the Group's expansion may lead to increased costs, decline in revenue, reduced profitability and limited growth, which may adversely affect the Group's business, financial condition, results of operations and prospects.

***The Group may not be able to renew the existing leases for its stores if they are terminated, or when they expire, on terms acceptable to the Group.***

As at 31 December 2020, the Group leased 121 stores with an aggregate total GFA of approximately 2.8 million sq.m. It is important to the Group's business operation that the Group maintains its existing leases. In the event that any of the Group's leases is terminated for any reason prior to its expiration, the Group may need to relocate to alternative premises. Relocation of any part of the Group's operations may result in disruptions to the Group's business and significant expenditures, and there is no assurance that the Group will be able to find suitable premises on commercially reasonable terms in a timely manner, or at all.

Furthermore, a need to relocate may also arise in the event that the Group is unable to renew the lease for any leased premises upon its expiration on terms acceptable to the Group. Upon expiration of the lease agreement for each of the stores, the Group will need to negotiate the terms and conditions on which the lease agreement may be renewed. There is no assurance that the Group will be able to renew its lease agreements on terms and conditions, in particular those regarding the rental price, which are favourable or otherwise acceptable to the Group, or at all. As a result, the Group may need to seek alternative premises to relocate the Group's existing stores. The Group cannot assure that such alternative premises will be at comparable locations or can be leased on comparable terms.

***The Group faces increasing acquisition and leasing cost of retail space at prime locations, and the Group may not be able to find suitable locations for new stores on commercially acceptable terms, if at all.***

The Group's ability to identify suitable location for its stores is important for its business growth. When selecting a site for a store, the Group takes into account various factors, including:

- whether it is located in a central or prime shopping district;
- its convenience and accessibility for the Group's target consumers;
- the expected pedestrian traffic;
- the size of the available space;
- the availability of supporting facilities, including parking lots;
- competition in the surrounding area; and
- other factors relevant to a particular site.

The Group secures prime locations for its stores either through ownership or long-term leases. As at 31 December 2020, out of the Group's 46 major stores, 25 were owned by the Group with 21 of the remaining under long-term leases. The supply of prime locations for new stores is limited, and competition for these locations is intense. As a result, the Group expects its cost of securing new retail locations for its new stores, whether through ownership or through long-term leases, may continue to increase. The Group's ability to purchase or lease suitable properties on terms acceptable to the Group is critical to the success of the Group's business. There is no assurance that the Group



will be able to identify and acquire or lease suitable locations on terms commercially acceptable to the Group or at all. In the event that the Group encounters difficulties in securing suitable store sites in regions where it operates or plans to expand, the Group's business and growth prospects may be materially and adversely affected.

***The Group is subject to certain risks relating to its distribution centres or standalone warehouses.***

The Group's retail business distribution network is supported by two logistics companies and four of their specially designed distribution centres, i.e. Shandong Silver Plaza Distribution Co., Ltd. (山東銀座配送有限公司), Qufu Silver Plaza Distribution Centre (曲阜銀座配送中心) and Weifang Distribution Centre (濰坊配送中心) which provides distribution and logistics services for "INZONE" retail chain network and Uni-Mart Logistic and Distribution Centre (統一銀座物流配送中心) which provides distribution services for "Uni-Mart" convenience store network. The Group's ability to process and fulfill orders accurately and timely and provide high quality customer service depends on the smooth operation of the Group's distribution centres and standalone warehouses. The Group's supply chain system may be vulnerable to damages caused by fire, flood, power outage, telecommunications failure, break-ins, earthquake, human error and other events. If any of the Group's supply chain system were rendered incapable of operations, then the Group may be unable to fulfill the orders the Group has received. The occurrence of any of the foregoing risks could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***The Group's future growth is dependent upon its ability to develop new services and products, which requires significant research and development efforts, and the Group's investment in new services and products may not result in any commercially viable services and products.***

Market participants frequently develop and market new and advanced services and products to adjust to changing market preferences and technologies. As a result, the future growth of the Group's businesses is dependent upon the Group's ability to develop and launch new services and products that meet market demand, and any delay in the Group's service and product launches may significantly impede the Group's ability to compete.

The Group has devoted substantial resources to its research and development activities to improve its ability to cater to market demands in the multiple industries the Group operates, in particular the pharmaceutical industry. For example, for the years ended 31 December 2018, 2019 and 2020, the Group's expenditures on research and development activities amounted to approximately RMB155 million, RMB189 million and RMB172 million, respectively, representing 18.1 per cent., 18.2 per cent. and 11.6 per cent., respectively, of the Group's operating income from its pharmaceutical business for the same periods. However, the Group cannot guarantee that its existing services and products will be upgraded through its ongoing research and development activities or that the Group's research and development activities will always keep pace with market demand and technological advances or yield the anticipated results.

Furthermore, development and production of new services and products may require substantial capital investment. The entire development process may take years before a new service or product is commercially launched. The Group cannot assure that its service and product research and development projects can be completed within the anticipated time frame, and its research and development efforts may not lead to new services and products that are commercially successful. The Group may also experience delays or be unsuccessful in any stage of service or product research and development, or production launch. If such events occur, the Group's business, financial condition and results of operations could be adversely affected.

***A portion of the pharmaceutical products manufactured and distributed by the Group is subject or may become subject to government price controls or other price restrictions in the PRC.***

A portion of the pharmaceutical products manufactured and distributed by the Group is included in the National or Provincial Medical Insurance Drugs Catalogues, and the maximum retail prices of such products are subject to government price controls in the form of fixed retail prices or retail price ceilings. In addition to fixed or maximum retail prices, products included in the National or Provincial Medical Insurance Drugs Catalogues may also be subject to downward price adjustments as the PRC Government aims to make pharmaceutical products more affordable to the general public.

Although the maximum retail prices are generally above the Group's retail prices, the Group cannot assure that it will always be the case. Should the PRC Government significantly reduce the fixed retail prices or the retail price ceilings applicable to the Group's products, the Group may have to reduce the prices of such products or remove them from its product portfolio, either of which may materially reduce its revenue and profitability. In November 2009, NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security of the PRC jointly issued the Opinion on Reform of Pricing System of Pharmaceuticals and Medical Services (改革藥品和醫療服務價格形成機制的意見), pursuant to which NDRC indicated that it would strengthen its intervention in the pricing of pharmaceutical products and announce market price information on pharmaceutical products. As a result, the Group's ability in setting prices for its pharmaceutical products is significantly limited. If there are additional price controls or government-mandated price regulations with respect to any of the existing or future products that the Group manufactures or distributes, its business, financial condition and results of operations may be materially and adversely affected.

***The terms of the Group's patents may not be sufficient to effectively protect its drug candidates and business from competitors, including generic drugs.***

The Group owns, has obtained licenses for, and has applied for patents related to its drugs and drug candidates. The term of an issued patent in China generally expires 20 years from the date of application. The life of a patent and the protection it affords is limited. Even if the Group has patents covering its drug candidates, the Group may be open to competition from other companies, and in particular, from generic drugs once its patent rights expire. Upon the expiration of its issued patents or patents that may be issued from its pending patent applications, the Group will not be able to assert such patent rights against potential competitors, including generic drugs, and the Group's business and results of operations may be adversely affected.

***The Group may not be able to acquire land in desirable locations that are suitable for development at commercially acceptable prices in the future.***

The growth of the Group's health and wellness properties business depends on its ability to continue identifying and acquiring suitable land located in desirable locations at commercially reasonable prices. The Group's ability to succeed in the auctions and acquire land also depends on a variety of other factors, such as the credentials and operating history of the competing bidders. As the Group from time to time competes with other property developers who may have a more established track record, stronger execution capability, more extensive experience or abundant financial resources than the Group, there can be no assurance that the Group will be able to acquire target land that it requires.

In addition, the availability and price of land sold at auctions may be affected by many factors, such as government land policies and the cost of financing. In the past ten years, the purchase price of land has significantly increased in the PRC, both in the primary market and the secondary market. In recent years, the PRC Government has adopted a number of land-related initiatives to slow down the rapid growth of China's residential property sector and to promote the development of affordable housing. For example:

- local governments are required, when approving new residential projects after 1 June 2006, to ensure that at least 70 per cent. of their annual land supply (in terms of estimated gross floor area, "GFA") consists of units that are smaller than 90 sq.m.;

- Ministry of Land and Resources of the PRC (“**MLR**”) stated in an announcement dated 30 May 2006, that development of ordinary commodity housing at middle to low prices and of medium to small sizes (including affordable housing) should be given priority in allocation of land resources;
- pursuant to the Catalogue of Restricted Use of Land (2012 Version) (限制用地項目目錄 (2012年本)) and the Catalogue of Prohibited Use of Land (2012 Version) (禁止用地項目目錄 (2012年本)) issued by MLR and NDRC on 23 May 2012, the area of a parcel of land granted for commodity housing development shall not exceed seven hectares in small cities and towns, 14 hectares in medium-sized cities or 20 hectares in large cities;
- pursuant to the Notice on Further Strengthening the Administration and Control of the Land-Use and Construction of Property (關於進一步加強房地產用地和建設管理調控的通知) jointly issued by the MLR and the Ministry of Housing and Urban-Rural Development of the PRC in September 2010, the development and construction of large low-density residential properties should be strictly restricted, and the plot ratio for residential land is required to be more than 1:0; and
- no state-owned construction land use rights certificate will be issued before the property developers fully pay up the land premiums according to the land use rights sales contracts.

The PRC Government also controls land supply through zoning, land usage regulations and other means. All of these measures further increase the competition for land among property developers in the PRC. If the Group is not able to acquire sufficient land in a timely manner and at acceptable prices, its health and wellness properties business and related financial condition and results of operations may be materially and adversely affected.

***The PRC Government may impose fines or penalties on the Group or revoke the land use rights with respect to certain land held by the Group.***

Under applicable PRC laws and regulations, if the Group does not commence development on the land held by the Group for more than one year after the date specified in the relevant land use rights grant contract, or the Group commences development on an area which is less than one-third of the area granted, or the capital invested in the development is less than one-fourth of the total investment approved for the development, and the development is suspended for more than one year without governmental approval, the PRC Government may impose an idle land fee equal to 20 per cent. of the land premium or allocation fees. The PRC Government may revoke the land use rights certificate without compensation if the Group does not commence development for more than two years after the date specified in the relevant land use rights grant contract without compelling causes. The State Council issued the Notice on Promoting the Saving and Intensification of Use of Land (國務院關於促進節約集約用地的通知) which states, among other things, that the MLR and other authorities are required to research and commence the drafting of implementation rules concerning the levy of land appreciation fees on idle land. Furthermore, MLR issued in August 2009 the Notice on Restricting the Administration of Construction Land and Promoting the Utilisation of Approved Land (國土資源部關於嚴格建設用地管理促進批而未用土地利用的通知) which reiterates its policy on idle land.

***Health and wellness properties business is subject to claims under statutory quality warranties.***

Under the Regulations on Administration of Development and Operation of Urban Property (城市房地產開發經營管理條例) promulgated by the State Council on 20 July 1998 and further amended on 29 November 2020, and the Regulations for the Administration of Sale of Commodity Building (商品房銷售管理辦法) promulgated on 4 April 2001 and effective on 1 June 2001, all property developers in the PRC must provide certain quality warranties for the properties they sell. The Group is required to provide these warranties to the purchasers of the properties it develops and sells. Generally, the Group receives quality warranties from its third-party contractors with respect to its property projects. If a significant number of claims were brought against the Group under its warranties and if

the Group is unable to obtain compensation for such claims from third-party contractors in a timely manner or at all, the Group could incur significant expenses to resolve such claims or face delays in remedying the related defects, which could in turn harm its reputation, and materially adversely affect its health and wellness properties business and related financial condition and results of operations.

***The Group may be adversely affected by the performance of third-party contractors.***

The Group engages third-party contractors for its businesses including construction of health and wellness properties projects. The Group generally selects independent contractors through an open tender process. However, there can be no assurance that the services rendered by any of these independent contractors or subcontractors will always be satisfactory or meet the Group's quality and safety standards. If the performance of any independent contractor is not satisfactory, the Group may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of its projects. Further, the completion of its projects may be delayed, and the Group may incur additional costs in some cases due to a contractor's financial or other difficulties. In addition, the Group may be asked on short notice to undertake additional development projects such as relocation housing, infrastructure and public facilities by the government, and there may be a shortage of contractors that meet the Group's quality requirements. Contractors may undertake projects for other companies and developers, engage in risky or unsound practices or encounter financial or other difficulties, which may affect their ability to complete their work for the Group on time or within budget. Any of these factors could have a material adverse effect on the Group's business, financial condition and results of operations.

***Fluctuations in the price of construction materials could adversely affect the Group's business and financial performance.***

The cost of construction materials, such as steel, which constitutes a significant portion of the Group's payments to its construction contractors, may fluctuate. Any increase in the cost of construction materials may result in additional costs to the Group and may lead to future increases in construction contract costs. Construction material costs have fluctuated in recent years. Any increase in the cost of any significant construction materials will adversely impact the Group's overall construction costs, which may pose an adverse impact on the profitability of the Group.

***The Group is exposed to risks in relation to the inventory it maintains.***

As at 31 December 2018, 2019 and 2020, the Group's inventories amounted to RMB39,433.7 million, RMB47,269.7 million and RMB50,027.2 million, respectively, representing 57.6 per cent., 61.8 per cent. and 58.9 per cent. of the Group's current assets for the same periods, respectively. The Group's inventories derived mainly from the Group's health and wellness properties business segment. In accordance with the Group's accounting policies, the Group had made provision for inventory price changes in the past three years. As the PRC Government may issue more stringent policies with respect to the development of property, the value of inventories could be adversely affected, which, in turn, could materially and adversely affect the Group's business, financial condition, results of operations and prospects.

***Failure to obtain sufficient capital on acceptable terms or in a timely manner may adversely affect the Group's business and growth prospects.***

The Group's business requires and will continue to require substantial capital expenditure. For the years ended 31 December 2018, 2019 and 2020, the Group made capital expenditures of RMB1,213.8 million, RMB916.4 million and RMB770.5 million, respectively. The Group has historically satisfied its capital requirements with cash flows generated from its operating activities, bank loans and bonds issuance in the PRC.

The ability of the Group to generate sufficient operating cash flow is affected by a number of factors, such as the Group's ability to manage and implement its business activities, changes in general market conditions, the regulatory environment, governmental policies and the competition in certain sectors in which the Group operates. Any materially adverse changes in these factors may cause the Group to experience a capital shortfall. There is no assurance that the Group's operations are or will be able to generate sufficient cash to satisfy its cash need at all times, if at all.

Insufficient cash flow generated from the Group's operating activities will increase the Group's reliance on external financing. As at 31 December 2020, the Group had total banking facilities of approximately RMB46.3 billion, of which approximately RMB17.3 billion had not been utilised. The Group's ability to access and raise sufficient capital through different sources depends upon a number of factors, such as the PRC's economic condition, relationships with key commercial banks, prevailing conditions in capital markets, regulatory requirements and the Group's financial condition. Some of these factors are beyond the Group's control and there is no assurance that the Group will be able to procure sufficient funds in a timely manner or to obtain external financing on commercially acceptable terms. In these cases, the Group may not be able to fund the capital expenditure necessary to implement its business plans and strategies, which may in turn have a material and adverse impact on its business, financial condition, results of operations and prospects.

***The Group's business may be affected by natural disasters, epidemics and other acts of God, including the recent COVID-19 pandemic.***

The Group's business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond the Group's control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. The occurrences of epidemics, such as the recent outbreak of COVID-19 or the past occurrence of Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu, human swine flu (also known as Influenza A or H1N1) or H7N9 avian flu, depending on their scale, have caused and may continue to cause different degrees of damage to the national and local economies in the PRC.

The outbreak of COVID-19 has caused the delay in resumption of local business in the PRC after the Chinese New Year holiday in 2020. The COVID-19 has spread all over the world and was declared a pandemic on 11 March 2020 by the World Health Organisation. The global outbreak of COVID-19 has created negative economic impact and increased volatility in the PRC and global market, which may in turn adversely affect the Group's business. Given the high uncertainties associated with the COVID-19 at the moment, it is difficult to predict how long these conditions will exist and the extent to which the Group may be affected. Should the disruption to the Group's operations extend beyond a specified period, it may materially and adversely affect the Group's results of operations and financial condition and may also cause reputation damage. In addition, any further disruption to the Group's business activities may negatively affect its liquidity and access to capital.

Moreover, the PRC has experienced natural disasters like earthquakes, floods and droughts in the past few years. For example, in May 2008 and April 2010, the PRC experienced earthquakes in Sichuan Province and Qinghai Province, respectively, resulting in the death of tens of thousands of people. Since the beginning of 2010, there have occurred severe droughts in southwestern China, resulting in significant economic losses in these areas. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Group's business.

***Historical financial information of the Group may not be indicative of its current or future results of operations.***

The historical financial information of the Group included in this Offering Circular is not indicative of its future financial results. For example, the Group has historically experienced low and volatile net operating cash flow in the years ended 31 December 2018, 2019 and 2020 in the amounts of RMB2,846.0 million, RMB1,912.4 million and RMB3,992.2 million, respectively. The decreasing amount of net operating cash flow for the years ended 31 December 2018 and 2019 was largely due



to an increase in cash outflows from operating activities resulting from the increase of cash deposits for the land acquisition in the Group's health and wellness properties business and an increase of cash paid to employees. This financial information is not intended to represent or predict the results of operations of any future periods. The Group's future results of operations may change materially if its future growth does not follow the historical trends for various reasons, including factors beyond its control, such as changes in economic environment, PRC environmental rules and regulations and the competitive landscape of the industries in which the Group operates its business.

Furthermore, the future results of operations of the Group may also fluctuate or change materially due to the business model of the Group and the accounting treatments applied thereto. Since historical financial information of the Group may not be indicative of its current or future results of operations, there is no assurance that the Group will not record an operating loss in the future, which may have a negative effect on the Group's business, financial condition, results of operations and prospects.

***Significant indebtedness may restrict the Group's business and increase the Group's exposure to various operational risks.***

The Group relies on bank loans and proceeds from bond issuances to satisfy a portion of its capital requirements and the Group has had a significant amount of outstanding indebtedness. As at 31 December 2018, 2019 and 2020, the Group's total interest-bearing indebtedness comprising short-term loans, non-current liabilities maturing within one year, other current liabilities, long-term loans, bonds payable and long-term payables was approximately RMB39,221.3 million, RMB41,362.1 million and RMB45,421.9 million, respectively, representing 41.7 per cent., 40.0 per cent. and 38.7 per cent. of the Group's total assets for the same periods. Out of the Group's total indebtedness of RMB45,421.9 million as at 31 December 2020, RMB31,838.6 million was due within 12 months.

In addition, as at 31 December 2020, the total amount of the Company's outstanding guarantees for third parties was approximately RMB95.8 million, representing 0.1 per cent. of the Company's total assets for the same period. If any of the subsidiaries benefiting from guarantees provided by the Company defaults on its borrowings guaranteed by the Company, the lender may exercise its right under the guarantee to demand repayment from the Company. As a result, the Company's business, financial condition and results of operations may be materially and adversely affected. Meanwhile, as at 31 December 2020, assets of the Group with a total book value of RMB22.3 billion were provided as security to secure the loan facilities of the Company and its subsidiaries. Third-party security rights may limit the Group's use of the underlying collateral assets and adversely affect its operational efficiency. If the Company and its subsidiaries are unable to service and repay their debts under such loan facilities on a timely basis, the assets provided as security for such bank loans may be subject to foreclosure, which may adversely affect the Group's business, financial condition, results of operation and prospects.

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

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

Certain financing contracts entered into by members of the Group may contain operational and financial restrictions on the Group or, as the case may be, the relevant subsidiary's business, that (i) prohibit the borrower from incurring additional indebtedness unless it is able to satisfy certain financial ratios, (ii) restrict the borrower from creating security or granting guarantees or (iii) prohibit the borrower from changing its business and corporate structure, without the lender's prior consent. The ability of the Company or any of its relevant subsidiaries (as borrower) to meet such financial restrictions may be affected by events beyond its control. Such restrictions may also negatively affect the Group's ability to respond to changes in market conditions, take advantage of business opportunities the Group believes to be desirable, obtain future financing, fund capital expenditures, or withstand a continuing or future downturn in its business. Any of these factors could materially and adversely affect the Group's ability to satisfy its obligations under the Bonds and other debt.

If the Company or any of its relevant subsidiaries is unable to comply with the restrictions (including restrictions on future investments) and covenants in its current or future debt obligations and other agreements, a default under the terms of such agreements may occur. In the event of a default under such agreements, the holders of the debt could terminate their commitments to the Company or its subsidiaries, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Some of the financing contracts entered into by the Company and its subsidiaries may contain cross-acceleration or cross-default provisions. As a result, a default by the Company or any of its subsidiaries under any of such agreements may cause the acceleration of repayment of not only such debt but also other debt, including the Bonds, or result in a default under other debt agreements. If any of these events occurs, there can be no assurance that the Company or its subsidiaries will be able to obtain the lenders' waiver in a timely manner or that the assets and cash flow of the Company or its subsidiaries would be sufficient to repay in full all of their respective debts as they become due, or that the Company or its subsidiaries would be able to find alternative financing. Even if the Company and its subsidiaries could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Company or, as the case may be, its subsidiaries.

***The Group's results of operations may be susceptible to material fluctuations of interest rates.***

The Group has a substantial indebtedness outstanding. Some of the Group's indebtedness bears interest that accrues at interest rates linked to benchmark lending rates published by PBOC. Any material fluctuation in the benchmark lending rate may have a material impact on the Group's interest expenses and payables under its bank loans and in turn affect its results of operations. The PRC Government from time to time adjusted interest rates as implementation of the PRC Government's economic and monetary policies. Since the outbreak of the global financial crisis in 2008, the PRC Government started to lower benchmark lending rates to encourage borrowing and stimulate the recovery of the country's economy. Beginning in 2008, PBOC decreased the benchmark one-year lending rate five times, from 7.47 per cent. to 5.31 per cent. in December 2008, which remained unchanged until September 2010. Since then, the one-year lending rate was gradually increased to 6.56 per cent. on 7 July 2011 and onwards. In recent years, a perceivable slowdown in the growth of China's economy again caused the PRC Government to adopt more liberal monetary policies with an aim to stimulate its economic development. Since 2012, PBOC reduced the benchmark one-year lending rate a number of times to 4.35 per cent. as at 24 October 2015 and onwards. In August 2019, the PBOC adopted measures to increase the influence of the loan prime rate (the "LPR") as part of its broader market-based reforms of the PRC's interest rate market. The LPR serves as the benchmark for market interest rates in the PRC. As at the date of this Offering Circular, the one-year LPR is at 3.85 per cent. Although the Group's business and financial condition may benefit from the low prevailing interest rates in the market, there is no assurance that this low-interest environment will continue. Any increase in benchmark lending rates by PBOC in the future will increase the Group's financing costs and adversely affect the Group's profitability, financial condition and results of operations.



***Any failure to maintain an effective quality control system could have an adverse effect on the Group's business and operations.***

The Group relies heavily on its quality control systems to ensure the safety and quality of its projects and products. Therefore it needs to maintain an effective quality control system for the Group's retail, pharmaceutical and health and wellness properties businesses and several other businesses. The effectiveness of the Group's quality control system depends significantly on a number of factors, including a timely update of the quality control system to suit the ever-changing business needs, the related training programmes as well as its ability to ensure that the Group's and the contractors' employees adhere to its quality control policies and guidelines. There can be no assurance that the quality of the projects undertaken by the Group will always meet the required standard. Any failure or deterioration of the Group's quality control systems could result in defects in its projects, which in turn may subject the Group to contractual, product liability and other claims. Any such claims, regardless of whether they are ultimately successful, could cause the Group to incur significant costs, harm its business reputation and result in significant disruption to its operations. Furthermore, if any of such claims are ultimately successful, the Group could be required to pay substantial monetary damages or penalties. Although the Group believes that its quality control systems have functioned properly, there can be no assurance that failures in its quality control systems will not occur in the future, and any such failure could have an adverse effect on the Group's business and operations.

***The Group may be subject to product liability claims relating to defective products provided by suppliers and, as a result, the Group's reputation and operating results may be adversely affected.***

The Group's businesses, in particular its retail and pharmaceutical operations, are exposed to risks associated with the manufacturing and/or distribution of products, such as manufacturing and/or distributing unsafe, defective or counterfeit products and product spoilage during transportation or in storage. According to existing PRC law and regulations, manufacturers, suppliers and retailers who produce or sell defective goods in the PRC shall be liable for the damage or personal injury caused by such products. This renders the Group liable for loss or injury arising from defective products that the Group sells at its retail stores. In addition, the Group may be required to recall defective products or take other remedial measures. Furthermore, customers may institute product liability claims against the Group. Although some of the Group's suppliers may be obligated to indemnify the Group for any claims brought against the Group concerning products supplied by the suppliers under certain agreements, however, there is no assurance that the suppliers will have adequate financial resources or insurance coverage to perform such indemnification. The Group therefore cannot assure that the Group will be successful in obtaining such indemnity payments or that indemnity payments will fully cover all of the Group's costs associated with the original liability. Even though the Group has product liability insurance to cover potential liability arising from the use of the products that the Group sells, product liability insurance in China offers limited coverage compared to coverage offered in many other countries. Furthermore, if the Group is found to be responsible for damage caused by defective goods, the Group's reputation may be adversely affected, which could lead to a loss of consumer confidence in the Group and a corresponding reduction in the Group's sales. Such event is likely to have an adverse effect on the Group's reputation, business, financial condition and results of operations.

***The Group's business depends significantly on market recognition of the Group's brands. If the Group is not able to maintain or enhance its brand recognition, the Group's business, financial condition and results of operations may be materially and adversely affected.***

The Group operates its business under a strong brand portfolio, consisting primarily of "INZONE (銀座)", "FREDA (福瑞達)" and "LUSHANG (魯商)". The Group believes its brand image has contributed significantly to the success of the Group's business, and, therefore, maintaining and enhancing the recognition, image and acceptance of Group's brands are critical to its ability to differentiate its products and services from and to compete effectively with its peers. The Group's brand image, however, could be jeopardized if the Group fails to maintain high product quality, pioneer and keep pace with evolving customer preferences, or timely fulfill orders for popular items.

In addition, any negative publicity or disputes regarding the products the Group offers, the suppliers the Group sources merchandises from, the services the Group provides, the Group or its management could also materially harm the Group's brand image. Failure to successfully promote and maintain the image of any of the Group's brands would have a material adverse effect on Group's business, results of operations and financial condition.

***General declines or disruptions in the tourism industry may materially and adversely affect the Group's cultural tourism business and results of operations.***

The Group's cultural tourism business may be subject to cyclical fluctuations. The Group's cultural tourism business typically experiences larger sales during festive and holiday seasons, including the Chinese New Year, Labour Day, the Mid-Autumn Festival and the National Day. As a result of seasonal fluctuations, the results of operations of the Group's cultural tourism business during one period may not be comparable with that of any other period of the year.

In addition, the recent COVID-19 pandemic has had a significant impact on tourism industry due to the business and travel restrictions imposed by the government to prevent the spread of the COVID-19. As a result, some of the scenic areas and hotels that the Group operates were temperately closed during the Chinese New Year holiday, typically a peak season for travel. There is no assurance that the Group has sufficient resources to capture business opportunities during peak seasons, or that the Group will be able to effectively respond to a decline in market demand during the slow season or unpredicted health, social and economic emergency. Failure to do so may materially and adversely affect the Group's business, financial condition and results of operations.

***The Group's cultural tourism business depends significantly on the Group's successful operation of its existing business sites and ancillary facilities, and the overall growth of the tourism industry in the PRC.***

The Group's cultural tourism business is one of the Group's major and promising businesses. The Group operates and manages a number of hotels, scenic areas, travel agencies, cultural tourism investment business and other cultural tourism related business. The Group derives revenue from its cultural tourism business varying from earnings from ancillary facilities in hotels, ticket proceeds of scenic areas and sales of service and products. The business prospects of the Group's cultural tourism business are subject to the successful operation of the Group's existing business sites and any further expansions, as well as the overall growth of the tourism industry in the PRC.

As the tourism industry in the PRC is still in its development stage, any changes to its growth trend may adversely affect the Group's performance of its cultural tourism business. In addition, given the importance of the cultural tourism business to the Group's overall operation, any material adverse developments, such as changes in government policies or the general economic conditions in Shandong Province or the PRC, could have a material adverse effect on the Group's business, financial condition and results of operations.

***The Group's success depends on the continuing service of its management team and qualified employees and any failure to attract and retain competent personnel may adversely affect the Group's business.***

The success of the Group's multiple businesses has been, and will continue to be, heavily dependent upon the continuing service of the directors of the Company and members of its senior management. If the Group loses the services of any of the Group's key executives and cannot replace them in a timely manner, the Group's business may be materially and adversely affected.

In addition, the Group's success depends on its ability to attract and retain key personnel who possess in-depth knowledge and understanding of the industries in which the Group invests or operates. These key personnel include members of the Group's senior management, experienced finance professionals, project development and management personnel, and other operation personnel.

Competition for attracting and retaining these individuals is intensive. Such competition may require the Group to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could materially and adversely affect the Group's financial condition and results of operations. As a result, the Group may be unable to attract or retain these personnel to achieve its business objectives and the failure to do so could severely disrupt its business and prospects. For example, the Group may not be able to hire enough qualified personnel to support its new investment projects or business expansion. As the Group expands its business or hires new employees, such new employees may take time to get accustomed to any new standard procedures and consequently may not comply with the standard procedures of such new business in an accurate and timely manner. The occurrence of any of the events discussed above could lead to unexpected loss to the Group and adversely affect its revenue and financial condition.

***The Group may not be able to detect or prevent fraud or other misconduct committed by its employees or third parties.***

The Group is a large conglomerate with thousands of employees. Fraud or other misconduct by the Group's employees, such as unauthorized business transactions, bribery and breach of Group's internal policies and procedures, or by third parties, such as breach of law, may be difficult to detect or prevent. It could subject the Group to financial loss and sanctions imposed by governmental authorities while seriously damaging the Group's reputation. This may also impair its ability to effectively attract prospective customers, develop customer loyalty, obtain financing on favourable terms, compete in invitations to tender and conduct other business activities. The Group's risk management systems, information technology systems and internal control procedures are designed to monitor its operations and overall compliance. However, the Group may be unable to identify non-compliance or suspicious transactions promptly, or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct committed by its employees or third parties, and the precautions the Group takes to prevent and detect such activities may not be effective. Therefore, the Group is subject to the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. This may materially and adversely affect the Group's business, financial condition and results of operations.

***Measures to protect the Group's intellectual property rights against infringement may not be adequate and the Group may be exposed to infringement claims.***

The Group has a large amount of intellectual property rights in the forms of patents, trademarks and copyrights primarily in the PRC. It also possesses certain trade secrets, proprietary technologies and know-how. Existing laws in the PRC may not be able to effectively protect the Group's intellectual property rights from infringement acts and enforcement procedures may be protracted, costly or ineffective. The Group relies upon a combination of patent, copyright and trademark laws, trade secrets, confidentiality policies, non-disclosure and other contractual arrangements to protect its intellectual property rights; however, the steps the Group takes in this regard may not be adequate to prevent or deter infringement or other misappropriation of its intellectual property rights. The Group's products may be subject to unauthorized copying or other misappropriation. There is no assurance that the Group will be able to detect unauthorized use or take appropriate, timely and effective actions to enforce its intellectual property rights.

While the Group is developing measures to protect its intellectual property rights, the Group's competitors may have independently developed technologies or designs of products that contain similarities to the Group's, and these competitors may have applied for registration of patents or other intellectual property rights in respect of their technologies or designs. The competitors or other third parties may consider the Group's application of certain intellectual properties an infringement of their intellectual property rights. In addition, as the Group procures various products and services from third-party suppliers, the Group may be involved in infringement claims against the suppliers from whom the Group purchases products and services that are alleged to infringe certain intellectual property rights in the future. As a result, the Group may be exposed to infringement claims even where there may be a genuine case in the Group's favour. Any involvement in intellectual property

rights infringement litigation may result in substantial costs, reputational damage and diversion of resources and management attention. If the Group is barred from using certain material trademarks, technologies, designs or other intellectual properties and fails to develop non-infringing substitutes or replacements or to obtain licenses to such intellectual properties, the Group's business operations may be interrupted and the Group's financial condition and results of operations could be adversely affected.

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

From time to time, the Group may be involved in disputes that arise during the ordinary course of business with various parties such as residents, contractors, customers and suppliers. These disputes may lead to legal or other proceedings and may result in damage to the Group's reputation and operations, substantial costs and diversion of resources and management's attention.

In addition, the Group may have disagreements or compliance issues with regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavourable decrees that may result in liabilities and cause delays to its projects. Also, in the event that the Group makes any other investments or acquisitions in the future, there can be no assurance that the Group would not have any exposure to any litigation or arbitration proceedings or other liabilities relating to the acquired businesses or entities.

***The Guarantor's consolidated financial statements included in this Offering Circular have been prepared and presented in accordance with the PRC GAAP, which are different from IFRS in certain respects.***

The Guarantor's consolidated financial statements included in this Offering Circular have been prepared and presented in accordance with PRC GAAP. PRC GAAP is substantially in line with IFRS, except for certain modifications. See "Summary of Certain Differences between PRC GAAP and IFRS" for details. Each investor should consult its own professional advisers for an understanding of the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

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

Each of Jonten, the auditor of the Guarantor for the year ended 31 December 2019, and CAAP, the auditor of the Guarantor for the year ended 31 December 2020, is a registered accounting firm in the PRC supervised by relevant PRC regulatory agencies, including MOF and the China Securities Regulatory Commission.

CAAP was previously subject to certain administrative and regulatory actions in connection with its provision of audit services to certain PRC companies. As confirmed by CAAP, the companies involved in the administrative and regulatory actions were all unrelated to the Group and the audit work performed for the Group is not affected by such administrative and regulatory actions and the audit report included elsewhere in this Offering Circular remains valid and effective. CAAP also confirmed that its ability to provide comfort letters and the qualification of the auditors involved in respect of this issue of the Bonds are not affected by such administrative and regulatory actions.

However, the Guarantor's auditors and their management, officers or employees may from time to time be investigated by PRC regulatory agencies such as MOF and the China Securities Regulatory Commission and may be subject to adverse regulatory decisions, warnings, sanctions, penalties and/or revocations and suspension of business operations as a result of such investigations. Adverse regulatory decisions, warnings, sanctions, penalties and/or revocations and suspension of business operations against the Guarantor's auditors may restrict the relevant auditors from providing audit services or other services in connection with the Group's financing transactions. In that case, the

Guarantor may have to discontinue its engagement with the relevant auditors, which may adversely affect its business operations and harm its reputation. Also, any adverse regulatory decisions, warnings, sanctions, penalties and/or revocations and suspension of business operations against the Guarantor's auditors may affect investor's confidence in the Guarantor's financial statements audited by its auditors. Potential investors should consider these factors prior to making any investment decision.

***Investors should not place any reliance on the financial information which is unreviewed or unaudited.***

The Guarantor publishes annual, semi-annual and quarterly consolidated financial information in the PRC to satisfy its continuing disclosure obligations relating to its debt securities issued in the PRC according to applicable PRC regulations and rules of the stock exchanges on which the relevant securities are listed. The semi-annual and quarterly consolidated financial information of the Guarantor is derived from the Group's management accounts and are normally unaudited or unreviewed by independent auditors. Unless specifically included in this Offering Circular, such financial information does not form part of this Offering Circular, and should not be referred to or relied upon by potential investors to provide the same quality of information associated with any audited or reviewed financial information. The Guarantor is not responsible to holders of the Bonds for the financial information from time to time published in the PRC and therefore investors should not place any reliance on any such financial information. The Guarantor's published financial information in the PRC may be adjusted or restated by the Guarantor to address retrospective impacts of subsequent changes in applicable accounting standards, the Guarantor's accounting policies and/or applicable laws and regulations affecting the Group's financial reporting, to reflect the subsequent comments given by the independent auditors during the course of their audit or review or to correct errors in its published financial statements. Such adjustment or restatement may cause discrepancies between the financial information with respect to a particular period or date published in the past on the one hand and the financial information with respect to the same period or date subsequently published in the PRC or the relevant financial information contained in this Offering Circular on the other hand.

***The Guarantor's current auditors have limited international capital markets experience.***

The Guarantor's independent auditors, Jonten and CAAP, are registered members of the Chinese Institute of Certified Public Accountants. The Group's auditors have significant audit experience in the PRC, however, they have limited international capital markets experience. Prospective investors should consider these factors prior to making any investment decision.

#### **Risks relating to the PRC**

***China has experienced a slowdown in its economic development and the future performance of China's economy is uncertain.***

The economy of China experienced rapid growth in the past 40 years. There has been a slowdown in the growth of China's GDP since the second half of 2013 which has raised market concerns that the historic rapid growth of the economy of China may not be sustainable. According to the National Statistics Bureau of the PRC, the annual growth rate of China's GDP in 2015 slowed down to 6.9 per cent. compared to 7.3 per cent. in 2014, and it further decreased to 6.7 per cent. in 2016. In 2017, the annual growth rate of China's GDP was 6.9 per cent., and it decreased to 6.6 per cent. in 2018. In 2019, the annual growth rate of China's GDP slowed down to 6.1 per cent., and it further decreased to 2.3 per cent. in 2020. In March 2016, Moody's Investors Service and Standard & Poor's Ratings Services changed China's credit rating outlook to "negative" from "stable," which highlighted the country's surging debt burden and questioned the government's ability to enact reforms. In May 2017, Moody's Investors Service changed China's credit rating outlook to "stable" but lowered PRC's sovereign rating from Aa3 to A1. In September 2017, Standard & Poor's Ratings Services lowered China's sovereign credit rating from AA- to A+.



The future performance of China's economy is not only affected by the economic and monetary policies of the PRC Government, but is also exposed to material changes in global economic and political environments as well as the performance of certain major developed economies in the world. For example, the international trade environment and various governments' trade and economic policies, particularly the recent trade conflicts between China and the United States, may cause uncertainties to China's economy and financial, foreign exchange and capital markets. In addition, the United Kingdom's exit from the European Union took place on 31 January 2020, where the United Kingdom legally revoked its membership in the 28-nation European Union. The United Kingdom then entered into the transition period which was agreed between the British government and the European Union. There is also substantial uncertainty relating to the impact of the United Kingdom's withdrawal from the European Union on the economic conditions of other part of the world, such as China's, including but not limited to further decreases in global stock exchange indices, increased foreign exchange volatility (in particular a further weakening of the pound sterling and euro against other leading currencies) and a possible economic recession involving more countries and areas. On 11 March 2020, the World Health Organisation declared the COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in a number of countries declaring a state of emergency and a number of countries, including China, Japan, the United States, members of the European Union and the United Kingdom, imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic will significantly disrupt the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time.

As such, there continues to be uncertainty for the overall prospects for the global and the PRC economies this year and beyond. Any material change in the financial markets, the PRC economy or regional economies as a result of these events or developments may materially and adversely affect the Issuer and the Group's business, financial condition and results of operations.

***PRC economic, political and social conditions as well as government policies could adversely affect the Group's business.***

Substantial all of the Group's assets are located in the PRC. Accordingly, the Group's financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including with respect to government involvement, level of development, economic growth rate, control of foreign exchange and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented a series of measures emphasizing market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises.

However, a large portion of productive assets in China remain owned by the PRC Government. The PRC Government continues to play a significant role in regulating industrial development, the allocation of resources, production, pricing and management, and there can be no assurance that the PRC Government will continue to pursue the economic reforms or that any such reforms will not have an adverse effect on the Group's business.

The Group's operations and financial results could also be affected by changes in political, economic and social conditions or the relevant policies of the PRC Government, such as changes in laws and regulations (or the interpretation thereof). If the PRC's economic growth slows down or if the PRC economy experiences a recession, the growth of demands for the Group's products and services may also slow down or stop, and its business prospects may be materially and adversely affected. The Group's operations and financial results, as well as its ability to satisfy its obligations under the Bonds, could also be materially and adversely affected by changes to or introduction of measures to

control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and the imposition of additional import restrictions.

***Interpretation and implementation of PRC laws and regulations involves significant uncertainties.***

Many of the Group's subsidiaries are incorporated and exist under the laws of the PRC. The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited precedential value. Since 1979, the Chinese legislative bodies have promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as these laws and regulations involve significant uncertainties. As the Chinese legal system develops, there can be no assurance that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on the business operations.

In addition, many of the PRC laws and regulations are relatively new and evolving, subject to different interpretations, and may be inconsistently implemented and enforced. Only limited volumes of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to investors, and can adversely affect the value of investment.

For example, NDRC issued the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案證記制管理改革的通知 (發改外資[2015]2044號), the “**NDRC Circular 2044**”) on 14 September 2015, which came into effect on the same day. According to the NDRC Circular 2044, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue bonds outside of the PRC with a maturity of more than one year, the enterprise must, prior to issuing such bonds, register the issuance with the NDRC and obtain a registration certificate from the NDRC in respect of the issuance (an “**NDRC pre-issuance registration certificate**”). Such enterprise must also file certain details of the bonds with NDRC within 10 business days of the completion of the bond issuance.

Uncertainties remain as to how the NDRC will further interpret, implement and enforce the NDRC Circular 2044. As a result, there is a risk that an NDRC post-issuance notification may not be completed in time or at all. It remains uncertain if the Company would be subject to any specific penalty if it fails (including for reasons outside of the Company's control) to complete the NDRC post-issuance notification within the required timeframe.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This has resulted in the outcome of dispute resolutions not being as consistent or predictable compared to more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in China, or the enforcement of judgments by a court of another jurisdiction. These uncertainties relating to the interpretation and implementation of PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Group in its operations and to holders of the Bonds.

***Investors may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on Hong Kong or other foreign laws against the Group and its directors or senior management.***

The Group with its subsidiaries is incorporated under the laws of the PRC with a substantial part of its assets located in China. In addition, most of the Group's directors and members of the senior management reside within China, and substantially all of the assets owned by these persons are located within China. As a result, it may not be possible to effect service of process outside China upon the Group's directors, executive officers or members of its respective senior management,



including with respect to matters arising under applicable securities laws. Furthermore, an original action may be brought in the PRC against the Group, or its directors, executive officers or members of its respective senior management only if the actions are not required to be arbitrated by PRC law and their respective articles of association, and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may award civil liability, including monetary damages.

***Government control of currency conversion and the fluctuation of the Renminbi may materially and adversely affect the Group's operations and financial results.***

The Group receives substantially all of its revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to allow the Group to make payments on obligations denominated in currencies other than the Renminbi.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's political and economic conditions. On 21 July 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. Since then, the PRC Government has made, and may in the future make, further adjustments to the exchange rate system. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for the trading against the Renminbi on the following working day. The People's Bank of China surprised markets in August 2015 by thrice devaluing the Renminbi, lowering its daily mid-point trading price significantly against the U.S. dollar. The currency devaluation of the Renminbi was intended to bring it more in line with the market by taking market signals into account. Renminbi depreciated significantly against the U.S. dollar following such August 2015 announcement by PBOC. In January and February 2016, Renminbi experienced further fluctuation in value against the U.S. dollar. With an increased floating range of the Renminbi's value against foreign currencies and a more market-oriented mechanism for determining the mid-point exchange rates, the Renminbi may further appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long-term. Any significant appreciation of the Renminbi against the U.S. dollar or other foreign currencies may result in the decrease in the value of the Group's foreign currency-denominated assets. Conversely, any significant depreciation of the Renminbi may adversely affect the value of the Group's businesses and its proceeds from the Offering. In addition, there are limited instruments available for the Group to reduce its foreign currency risk exposure at reasonable costs. All of these factors could materially and adversely affect the Group's businesses, financial conditions and results of operations.

***The operations of the Group may be affected by rising inflation rates within the PRC.***

Economic growth in the PRC has historically been accompanied by periods of high inflation. The PRC government has implemented various policies from time to time to control inflation. The PRC government has periodically introduced measures in certain sectors to avoid overheating of the economy, including tighter bank lending policies, increases in bank interest rates, and measures to curb inflation, which have resulted in a decrease in the rate of inflation. However, inflation rates within the PRC have been on a sharp uptrend in recent years. Increasing inflation rates are due to many factors beyond the Group's control, such as rising food prices, rising production and labour costs, high lending levels, PRC and foreign governmental policies and regulations, and movements in exchange rates and interest rates. It is impossible to accurately predict future inflationary trends. As a result, further inflationary pressures within the PRC may have a material adverse effect on the Group's business and financial conditions and results of operations, as well as their liquidity and profitability.

***Governmental foreign exchange control may affect the value of investment.***

The PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Shortages in the availability of foreign currency may restrict the Group's ability to remit sufficient foreign currency to provide support to the Group to satisfy the Group's foreign currency denominated obligation. If the foreign exchange control system prevents the Group from obtaining sufficient foreign currency to satisfy its currency demands, the Group may not be able to provide support to the Group to make interest and principal payments under the Bonds.

***The implementation of PRC employment regulations may increase labour costs in the PRC generally.***

The PRC Labour Contract Law (中華人民共和國勞動合同法) became effective on 1 January 2008 in the PRC and was amended on 28 December 2012. It imposes more stringent requirements on employers in relation to entry into fixed-term employment contracts and dismissal of employees. Pursuant to the PRC Labour Contract Law, the employer is required to make compensation payment to a fixed-term contract employee when the term of their employment contract expires, unless the employee does not agree to renew the contract even though the conditions offered by the employer for renewal are the same as or better than those stipulated in the current employment contract. In general, the amount of compensation payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer. A minimum wage requirement has also been incorporated into the PRC Labour Contract Law. In addition, unless otherwise prohibited by the PRC Labour Contract Law or objected to by the employees themselves, the employer is also required to enter into non-fixed-term employment contracts with employees who have previously entered into fixed-term employment contracts for two consecutive terms.

In addition, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to paid annual leave ranging from 5 to 15 days, depending on the length of the employees' work time. Employees who consent to waive such vacation at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each vacation day being waived. Under the National Leisure and Tourism Outline 2013–2020 (國民旅遊休閒綱要 2013–2020) which became effective on 2 February 2013, the system of paid annual leave for employees shall have been basically implemented by 2020. As a result of the PRC Labour Contract Law, the Regulations on Paid Annual Leave for Employees and the National Leisure and Tourism Outline 2013–2020, the Group's labour costs (inclusive of those incurred by contractors) may increase. Further, under the PRC Labour Contract Law, when an employer terminates its PRC employees' employment, the employer may be required to compensate them for such amount which is determined based on their length of service with the employer, and the employer may not be able to efficiently terminate non-fixed-term employment contracts under the PRC Labour Contract Law without cause. In the event the Group decides to significantly change or decrease its workforce, the PRC Labour Contract Law could adversely affect its ability to effect these changes in a cost-effective manner or in the manner that the Group desires, which could result in an adverse impact on the Group's business, financial condition and results of operations.

Further, in the event that there is a labour shortage or a significant increase to labour costs, the Group's business operation costs is likely to increase. In such circumstances, the profit margin may decrease and the financial results may be adversely affected. In addition, inflation in the PRC has increased in recent years. Inflation in the PRC increases the costs of raw materials required by the Group for conducting its business and the costs of labour as well. Rising labour costs may increase the Group's operating costs and partially erode the cost advantage of the Group's operations and therefore negatively impact the Group's profitability.

***There can be no assurance of the accuracy or comparability of facts and statistics contained in this Offering Circular with respect to the PRC, its economy or the relevant industry.***

Facts, forecasts and other statistics in this Offering Circular relating to the PRC, its economy or the relevant industry in which the Group operates have been directly or indirectly derived from official government publications and certain other public industry sources and although the Group believes such facts and statistics are accurate and reliable, it cannot guarantee the quality or the reliability of such source materials. They have not been prepared or independently verified by the Issuer, the Guarantor, the Trustee, the Agents or any of its or their respective affiliates, employees, officers, directors, agents, advisers or representatives, and, therefore, the Issuer, the Guarantor, the Trustee, the Agents or any of its or their respective affiliates, employees, officers, directors, agents, advisers or representatives makes no representation as to the completeness, accuracy or fairness of such facts or other statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be incomplete, inaccurate or unfair or may not be comparable to statistics produced for other economies or the same or similar industries in other countries and should not be unduly relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or other statistics.

***The PRC government's pilot plan to replace business tax with value-added tax (the "VAT") may subject the Group to more taxes, which could adversely affect the Group's business, results of operations and prospects.***

In November 2011, the MOF and the State Administration of Taxation (the "SAT") promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (營業稅改徵增值稅試點方案). Pursuant to this pilot plan and relevant subsequent notices, from 1 January 2012, VAT gradually replaced business tax in the transport and post industry, telecom industry and some of the modern service industries in the PRC. Under the pilot plan, a VAT rate of six per cent. applies to certain modern service industries. On 23 March 2016, the MOF and the SAT promulgated the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-Added Tax to Replace Business Tax (關於全面推開營業稅改徵增值稅試點的通知) ("Circular 36"). Pursuant to Circular 36, starting from 1 May 2016, the VAT pilot programme will cover construction industry, real estate industry, finance industry and life service industry on a nation-wide basis. Although the VAT pilot programme is mainly intended to reduce double taxation under the business tax system, the Group may be subject to more taxes under the VAT pilot programme in connection with the Group's operations and activities in the PRC, which could adversely affect the Group's business, results of operations and prospects.

***The payment of dividends by the Issuer's and the Guarantor's respective operating subsidiaries in the PRC is subject to restrictions under the PRC law.***

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

## **Risks relating to the Bonds and the Guarantee**

***Neither the Shandong Provincial Government nor any other PRC governmental entity is obligated to repay any amount under the Bonds or the Trust Deed if the Issuer or the Guarantor fails to meet its obligations thereunder.***

The Guarantor is beneficially controlled and owned by the Shandong Provincial Government with Shandong SASAC as its registered controlling shareholder. However, neither the Shandong Provincial Government nor any other PRC governmental entity is under any obligation to pay any amount under the Bonds or the Trust Deed if the Issuer or the Guarantor fails to meet its obligations thereunder. This position has been reinforced by the Circular of the Ministry of Finance on Issues relevant to the Regulation on the Financing Activities Conducted by Financial Institutions for Local Governments and State-owned Enterprises (財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知(財金[2018] 23號) (the “**MOF Circular**”) promulgated on 28 March 2018 and took effect on the same day, the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知) (Fa Gai Wai Zi [2018] 706) (the “**Joint Circular**”) promulgated on 11 May 2018 and took effect on the same day, and the Circular of the General Office of the National Development and Reform Commission on the Requirements for Local State-owned Enterprises to Apply for Record and Registration of Foreign Debt Issuance (國家發展改革委辦公廳關於對地方國有企業發行外債申請備案登記有關要求的通知) (Fa Gai Ban Wai Zi [2019] No. 666), promulgated on 6 June 2019 and took effect on the same day. The PRC government and the Shandong Provincial Government have no obligation to pay any amount under the Bonds. Investments in the Bonds are relying on the credit risk of the Issuer and the Guarantor. As a result, no financial support from the Shandong Provincial Government nor any other the PRC governmental entity may materialise. The Shandong Provincial Government only has limited liability in the form of its equity contribution in the Guarantor, and the Bonds are to be repaid solely by the Issuer or the Guarantor and the obligations of the Issuer and the Guarantor under the Bonds or the Trust Deed shall solely be fulfilled by the Issuer and the Guarantor as an independent legal person. If the Issuer or the Guarantor does not fulfil its obligations under the Bonds and the Trust Deed, the Bondholders will only have recourse against the Issuer or the Guarantor, and not the Shandong Provincial Government or any other PRC governmental entity. Investors should base their investment decision on the financial condition of the Issuer, the Guarantor and the Group and any perceived credit risk associated with an investment in the Bonds based on the Group’s own financial information reflected in its financial statements.

***The Issuer has limited assets, which affects its ability to make payments under the Bonds and relies on the cash flows generated by other members of the Group to meet its obligations under the Bonds.***

The Issuer is a special purpose vehicle incorporated for the purpose of financing the business operations of the Group. Since its incorporation, the Issuer has had no substantive assets or any business operations. After the Bonds are issued, it will on-lend the proceeds from the issuance to the Guarantor or any of its subsidiaries. Until the borrower makes a payment of principal or interest to the Issuer pursuant to the on-lending arrangement, or until the Guarantor or the other members of the Group injects capital into the Issuer via other means, the Issuer will have no substantive assets to finance the payments of any amount under the Bonds.

***If the Guarantor fails to complete the relevant Cross-Border Security Registration within the time period prescribed by SAFE, there may be logistical hurdles for cross-border payments under the Guarantee.***

Pursuant to each Deed of Guarantee, the Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor is required to submit each Deed of Guarantee to the local SAFE for registration in

accordance with, and within the time period prescribed by the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014. Although non-registration with SAFE does not render the Guarantee ineffective or invalid under the PRC laws, SAFE may impose penalties on the Guarantor if registration is not carried out within the stipulated time frame. In addition, if the Guarantor fails to complete the relevant Cross-Border Security Registration, there may be logistical hurdles at the time of remittance of funds (if any cross-border payment is to be made by the Guarantor under the Guarantee) as domestic banks may require evidence of the Cross-Border Security Registration in connection with the Guarantee in order to effect such remittance. The Guarantor has completed the Cross-Border Security Registration for the Original Bonds before the Registration Deadline in relation to the Original Bonds. However, there is no assurance that the Guarantor can remit money outside of the PRC to comply with its obligations under the Deed of Guarantee with respect to the Additional Bonds.

In addition, the administration of the Cross-Border Security Registration may be subject to a certain degree of executive and policy discretion by SAFE. There is no assurance that the registration of the Guarantee with SAFE can be completed or that the registration with SAFE obtained by the Guarantor will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the validity and enforceability of the Guarantee in the PRC.

***Any failure to complete the relevant filings under the NDRC Circular and the relevant registration under SAFE within the prescribed time frame following the completion of the issue of the Bonds may have adverse consequences for the Issuer, the Guarantor and/or the investors of the Bonds.***

The NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued outside the PRC with a maturity not less than one year with the NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities. The Guarantor has registered the issuance of the Bonds with the NDRC and obtained a certificate from NDRC on 2 March 2020 evidencing such registration of Original Bonds and on 13 April 2021 evidencing such registration of the Additional Bonds, and is required to file with the NDRC the requisite information and documents within 10 Registration Business Days after the Original Bonds Issue Date in the case of the Original Bonds and within 10 Registration Business Days after the Additional Bonds Issue Date in the case of the Additional Bonds in accordance with the NDRC Circular. However, there is no clarity on the legal consequences of non-compliance with the post-issue filing requirement under the NDRC Circular. In the worst case scenario, such non-compliance with the post-issue notification requirement under the NDRC Circular may result in it being unlawful for the Issuer or the Guarantor, to perform or comply with any of its obligations under the Bonds and the Bonds might be subject to enforcement as provided in Condition 9 (*Events of Default*) of the Terms and Conditions. Potential investors of the Bonds are advised to exercise due caution when making their investment decisions.

In accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) (“**Cross-Border Guarantees Provisions**”) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014, the Guarantor shall complete the relevant cross-border guarantee registration within 15 working days after execution of each Deed of Guarantee (as defined in the Terms and Conditions), respectively. Before such registration of each Deed of Guarantee is completed, it is uncertain whether the Guarantee is enforceable as a matter of PRC law and it may be difficult for Bondholders to recover amounts due from the Guarantor (if any cross-border payment is to be made by the Guarantor under the Guarantee), and the Issuer or the Guarantor may not be able to remit the proceeds of the offering into the PRC or remit money out of the PRC in order to meet its payment obligations under the Guarantee. Pursuant to article 31 of the Cross-Border Guarantees Provisions, a failure to comply with registration requirements may result in a warning and fine as set forth under article 48 of the Foreign Exchange Administrative Regulations (外匯管理條例) promulgated by the State Council in 2008. However, pursuant to article 40 of the Foreign Debt Administration Provisional Rules (外債管理暫行辦法) promulgated by MOF, the NDRC



and SAFE, a failure by a domestic entity to register a foreign debt guarantee contract will render the contract not legally binding and unenforceable. Under the Terms and Conditions, the Guarantor has undertaken to file with SAFE each Deed of Guarantee within 15 Registration Business Days after execution of such Deed of Guarantee, and shall use its best endeavours to complete the relevant Cross-Border Security Registration and obtain a registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before the relevant Registration Deadline (being 120 Registration Business Days after the Original Bonds Issue Date in the case of the Original Bonds and the day falling 120 Registration Business Days after the Additional Bonds Issue Date in the case of the Additional Bonds). If the Guarantor is unable to complete the registration with the local branches of SAFE, the Guarantor may have difficulty in remitting funds offshore to service payments in respect of the Guarantee and investors may encounter difficulties in enforcing judgments obtained in the Hong Kong courts with respect to the Bonds and any Deed of Guarantee in the PRC. In such circumstances, the value and secondary market price of the Bonds may also be materially and adversely affected.

***The Bonds and the Guarantee are unsecured obligations.***

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

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

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

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

The Terms and Conditions of the Bonds and the transaction documents relating to the issue of the Bonds are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “**2006 Arrangement**”) which was signed on 14 July 2006, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts.

However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by 2006 Arrangement. The new Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (最高人民法院、香港特別行政區政府關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the “**2019 Arrangement**”) was signed on 18 January 2019. Following the promulgation of a judicial

interpretation by the Supreme People's Court and the completion of the relevant procedures in the HKSAR, both sides shall announce a date on which the 2019 Arrangement shall commence. Upon commencement of the 2019 Arrangement, the 2006 Arrangement shall be terminated. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Bonds will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Bondholders' ability to initiate a claim outside of Hong Kong will be limited.

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

The Bonds may be purchased as a way to reduce risk or enhance yield with a measured and appropriate addition of risk to the investor's overall portfolios. A potential investor should not invest in the Bonds unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

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

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

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

***An active trading market for the Bonds may not develop.***

The Bonds are a new issue of securities for which there is currently no trading market. There can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. Although application has been made for the listing of the Bonds on



the HKSE, no assurance can be given as to the liquidity of, or trading marked for, the Bonds. None of the Managers is obligated to make a market in the Bonds, and if any Manager does so it may discontinue such market making activity at any time without notice. Further, the Bonds may be allocated to a limited number of investors, in which case liquidity may be limited. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, the Bondholders will only be able to resell the Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. It is the investors' obligation to ensure that offers and sales of the Bonds within the United States and other countries comply with applicable securities laws. Please see "*Subscription and Sale*". Neither the Issuer nor the Guarantor can predict whether an active trading market for the Bonds will develop or be sustained.

In addition, one or more initial investors in the Bonds may purchase a significant portion of the aggregate principal amount of the Bonds pursuant to the offering. The existence of any such significant Bondholder(s) may reduce the liquidity of the Bonds in the secondary trading market. Accordingly, there can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities.

***Investors in the Bonds may be subject to foreign exchange risks.***

The Bonds are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to, among other things, economic, political and other factors over which the Issuer or the Guarantor has no control. Depreciation of the U.S. dollar against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

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

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

***Developments in other markets may adversely affect the market price of the Bonds.***

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

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

At any time following the occurrence of a Relevant Event (as defined in the Terms and Conditions of the Bonds), the Issuer may, at the option of any Bondholder, be required to redeem all, but not some

only, of such Bondholder's Bonds at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together in each case with any interest accrued up to but excluding the Put Settlement Date. If such an event were to occur or at maturity of the Bonds, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. There is also no assurance that the Guarantor would have sufficient liquidity at such time to make the required redemption of the Bonds. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The Issuer's and the Guarantor's failure to repay, repurchase or redeem the relevant Bonds could constitute an event of default under the Bonds, which may also constitute a default under the terms of the Issuer's, the Guarantor's or the Group's other indebtedness.

***The Bonds will be structurally subordinated to the existing and future indebtedness and other liabilities and commitments of the Issuer's existing and future subsidiaries and effectively subordinated to the Issuer's secured debt to the extent of the value of the collateral securing such indebtedness.***

The Bonds will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's existing or future subsidiaries, whether or not secured. The Bonds will not be guaranteed by any of the Issuer's subsidiaries, and the Issuer may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer is subject to various restrictions under applicable laws. The Issuer's subsidiaries will be separate legal entities that have no obligation to pay any amounts due under the Bonds or make any funds available therefore, whether by dividends, loans or other payments. The Issuer's right to receive assets of any of the Issuer's subsidiaries, respectively, upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer is creditor of that subsidiary). Consequently, the Bonds will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any subsidiaries that the Issuer may in the future acquire or establish.

The Bonds are the Issuer's unsecured obligations and will (i) rank at least equally in right of payment with all the Issuer's other present and future unsecured and unsubordinated obligations; (ii) be effectively subordinated to all of the Issuer's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's present and future subordinated obligations, subject in all cases to exceptions as may be provided by applicable legislation. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Bonds, these assets will be available to pay obligations on the Bonds only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Bondholders rateably with all of the Issuer's other unsecured and unsubordinated creditors, including trade creditors. If there are insufficient assets remaining to pay all these creditors, then all or a portion of the Bonds then outstanding would remain unpaid.

***The insolvency laws of the PRC and the British Virgin Islands may differ from those of another jurisdiction with which the Bondholders are familiar.***

The Issuer is incorporated under the laws of the British Virgin Islands, and the Guarantor is incorporated under the laws of the PRC. Any bankruptcy proceeding relating to the Issuer and the Guarantor would likely involve bankruptcy laws of the British Virgin Islands or PRC, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Bondholders are familiar.

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

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in the Bonds, or current or future debt obligations and other agreements (if any), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer or the Guarantor, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, those debt agreements may contain cross-acceleration or cross-default provisions. As a result, the default by the Issuer or the Guarantor under one debt agreement may cause the acceleration of repayment of debt or result in a default under its other debt agreements, including the Bonds. If any of these events occur, there can be no assurance that there would be sufficient assets and cash flows to repay in full all of the indebtedness of the Issuer or the Guarantor, or that it would be able to find alternative financing. Even if the Issuer or the Guarantor could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Issuer or the Guarantor.

***A change in English law which governs the Bonds may adversely affect Bondholders.***

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

***Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds, the Deeds of Guarantee, the Agency Agreement and the Trust Deed by the Trustee or less than all of the holders of the Bonds, and decisions may be made on behalf of all holders of the Bonds that may be adverse to the interests of individual holders of the Bonds.***

The Terms and Conditions of the Bonds provide that the Trustee may (but shall not be obliged to), without the consent of the Bondholders, agree (i) to any modification (except as mentioned in the Trust Deed and/or the Deeds of Guarantee) of the Trust Deed, the Deeds of Guarantee, the Terms and Conditions of the Bonds and/or the Agency Agreement which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Bonds and (ii) to any modification of the Trust Deed, the Deeds of Guarantee, the Terms and Conditions of the Bonds and/or the Agency Agreement which is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law.

The Terms and Conditions of the Bonds also contain provisions for calling meetings of the holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including those Bondholders who did not attend and vote at the relevant meeting or participate in the written resolutions or electronic consents and those Bondholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of holders of the Bonds may be adverse to the interests of individual holders of the Bonds.

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

*The Trustee may request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.*

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

*Gains on the transfer of the Bonds and interest payable by the Guarantor to overseas Bondholders may be subject to income tax and value-added tax under PRC tax laws.*

Under the Enterprise Income Tax Law of the PRC (the “**EIT Law**”) which took effect on 29 December 2018 and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Under the EIT Law, a “non-resident enterprise” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Bonds by enterprise holders would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the “**Arrangement**”) which was promulgated on 21 August 2006, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds if such capital gains are not connected with an office or establishment that the Bondholders have in the PRC and all the other relevant conditions are satisfied. As Bonds will be held in the Clearing System, it is not possible to ascertain the jurisdiction of the Bondholders.

Pursuant to the EIT Law, the PRC Individual Income Tax Law (the “**IIT Law**”) which took effect on 1 January 2019, and the implementation regulations in relation to both the EIT Law and IIT Law, PRC income tax at a rate of 10 per cent. or 20 per cent. is normally applicable to PRC-source income derived by non-resident enterprises or individuals respectively, subject to adjustment by applicable treaty. As the Guarantor is a PRC resident enterprise for tax purposes, interest paid by the Guarantor to non-resident Bondholders may be regarded as PRC-sourced, and therefore be subject to PRC income tax at a rate of 10 per cent. for non-resident enterprise Bondholders and at a rate of 20 per cent. for non-resident individual Bondholders (or a lower treaty rate, if any).

It is worth mentioning that should the Issuer, as an overseas entity held by the Guarantor, be determined as an overseas registered PRC resident enterprise for tax purposes by PRC competent tax authorities in accordance with PRC laws by virtue of its actual administrative organisation conducted in the PRC, the Issuer would be obligated to withhold PRC income tax on payments of interest and certain other amounts on the Bonds to the Bondholders at a rate of 10 per cent. for non-resident enterprise Bondholders and at a rate of 20 per cent. for non-resident individual Bondholders (or a lower treaty rate, if any). Under the EIT Law and its implementation regulations, “actual administrative organisation” shall mean organisation implementing substantive and comprehensive management and control over the production and business operations, personnel, financial accounts and property etc. of an enterprise.

On 23 March 2016, MOF and the State Administration of Taxation issued the Circular of Full Implementation of Replacing Business Tax with Value-Added Tax Reform (Caishui [2016] No. 36) (“**Circular 36**”), which introduced a new value-added tax (“**VAT**”) from 1 May 2016. VAT is applicable where entities or individuals provide services within the PRC. The Guarantor will be obligated to withhold VAT of 6 per cent. and certain surcharges (as described below) on VAT for payments of interest and certain other amounts on the Bonds paid by the Guarantor to Bondholders that are non-resident enterprises or individuals. Pursuant to Interim Regulation of the PRC on City Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例 (2011修訂)), Interim Provisions on the Collection of Educational Surcharges (徵收教育費附加的暫行規定 (2011修訂)), Notice of the Ministry of Finance on the Relevant Matters regarding Unifying the Policies on Local Education Surcharges (財政部關於統一地方教育附加政策有關問題的通知) and based on consultation with the Shandong local taxation bureau, a city maintenance and construction tax (7 per cent.), an educational surcharge (3 per cent.) and a local educational surcharge (2 per cent.) will be applicable when entities and individuals are obliged to pay VAT (for an aggregate of 12 per cent. on any VAT payable). VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC. Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

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

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

The Bonds will be represented by a Global Certificate which will be deposited with a common depositary for Euroclear and Clearstream (each, a “**Clearing System**”). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Certificates representing Bonds. The Clearing System(s) will maintain records of the beneficial interests in the Global Certificate. While the Bonds are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Bonds are represented by the Global Certificate, the Issuer, or failing which, the Guarantor, will discharge its payment obligations under the Bonds or the Guarantee, as the case may be, by making payments to the Clearing System for distribution to their accountholders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the Clearing System(s) to receive payments under the Bonds and the Guarantee. None of the Issuer, the Guarantor the Trustee and the Agents or any of their respective directors, officers, employees, agents, advisers, representatives and affiliates has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.



Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing System(s) to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Certificate will not have a direct right under the Global Certificate to take enforcement action against the Issuer or the Guarantor in the event of a default under the Bonds but will have to rely upon their rights under the Trust Deed.

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

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

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

The Issuer may redeem the Bonds at its option, in whole but not in part, at a redemption price equal to their principal amount, together with interest accrued up to but excluding the date fixed for redemption if, subject to certain conditions, as a result of a change in or amendment to tax laws or regulations, the Issuer has or will become obliged to pay Additional Tax Amounts (as defined in the Terms and Conditions), as further described in Condition 6(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions.

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

***The Issuer may issue additional Bonds in the future.***

The Issuer may, from time to time, and without the consent of the Bondholders, create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects save for the issue date, the first payment of interest on them and the exercise of a redemption for a No Registration Event and the timing for compliance with the requirements set out in the Terms and Conditions in relation to the NDRC Post-issue Filing and the Cross-Border Security Registration (see "*Terms and Conditions of the Bonds – Further Issues*") or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

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

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



## EXCHANGE RATES

The PBOC sets and publishes on a daily basis a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by two per cent. against the U.S. dollar. The PRC Government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0 per cent. On 11 August 2015, the PBOC announced to improve the central parity quotations of Renminbi against the U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the U.S. dollar. In January and February 2016, Renminbi experienced further fluctuation in value against the U.S. dollar. Following the gradual appreciation of Renminbi in 2017, Renminbi experienced a recent depreciation in value against U.S. dollar following a fluctuation in the first half of 2018. The PRC Government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

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

Period	Renminbi per U.S. Dollar Noon Buying Rate <sup>(1)</sup>			
	Period End	Average <sup>(2)</sup>	High	Low
		<i>(CNY per U.S.\$1.00)</i>		
2016 .....	6.9430	6.6549	6.9580	6.4480
2017 .....	6.5063	6.7350	6.9575	6.4773
2018 .....	6.8755	6.6292	6.9737	6.2649
2019 .....	6.9618	6.9014	7.1786	6.6822
2020 .....	6.5250	6.8878	7.1681	6.5208
November .....	6.5760	6.6029	6.6899	6.5556
December .....	6.5250	6.5393	6.5705	6.5208
2021				
January .....	6.4282	6.4672	6.4822	6.4282
February .....	6.4730	6.4601	6.4869	6.4344
March .....	6.5518	6.5109	6.5716	6.4648
April .....	6.4749	6.5186	6.5649	6.4710
May (through 28 May) .....	6.3674	6.4321	6.4749	6.3674

Notes:

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

## TERMS AND CONDITIONS OF THE BONDS

*The following, subject to modification and other than the words in italics is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds.*

The issue of the U.S.\$140,00,000 7.0 per cent. guaranteed bonds due 2023 (the “**Additional Bonds**”) to be issued on 11 June 2021 (the “**Additional Bonds Issue Date**”), to be consolidated and form a single series with the Issuer’s existing U.S.\$180,000,000 7.0 per cent. guaranteed bonds due 2023 (the “**Original Bonds**”, and together with the Additional Bonds, the “**Bonds**”, which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) issued on 28 August 2020 (the “**Original Bonds Issue Date**”) after the Registration Conditions with respect to both the Original Bonds and the Additional Bonds are complied with, of Fuyuan Worldwide Limited 富源國際有限公司 (the “**Issuer**”) and guaranteed by Shandong Commercial Group Co., Ltd. (山東省商業集團有限公司) (the “**Guarantor**”) was authorised by a resolution of the sole director of the Issuer passed on 7 July 2020 and 12 March 2021, respectively, and the giving of the Guarantee (as defined below) was authorised by a resolution of the board of directors of the Guarantor passed on 12 December 2019 and 11 March 2021, respectively.

The Original Bonds are constituted by a trust deed (the “**Original Trust Deed**”) dated 28 August 2020 and the Additional Bonds are constituted by the Original Trust Deed as supplemented by a trust deed supplemental to the Original Trust Deed dated 11 June 2021 (the “**Supplemental Trust Deed**”, and together with the Original Trust Deed, as may be further amended and/or supplemented from time to time, the “**Trust Deed**”), each between the Issuer, the Guarantor and China Construction Bank (Asia) Corporation Limited (the “**Trustee**” which expression shall, which the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed and any successors) as trustee for itself and the holders of the Bonds. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Original Bonds have the benefit of a deed of guarantee dated 28 August 2020 and the Additional Bonds have the benefit of a deed of guarantee dated on 11 June 2021 (each deed of guarantee, as amended and/or supplemented from time to time, the “**Deed of Guarantee**”), each executed by the Guarantor and the Trustee relating to the Original Bonds and the Additional Bonds, respectively. The Bonds are the subject of an agency agreement (the “**Original Agency Agreement**”) dated 28 August 2020 as supplemented by an agency agreement supplemental to the Original Agency Agreement dated 11 June 2021 (the “**Supplemental Agency Agreement**”, and together with the Original Agency Agreement, as may be further amended and/or supplemented from time to time, the “**Agency Agreement**”), between the Issuer, the Guarantor, the Trustee, China Construction Bank (Asia) Corporation Limited as the registrar (the “**Registrar**”, which expression shall include any successor registrar appointed from time to time in connection with Bonds), as the transfer agent (the “**Transfer Agent**”, which expression shall include any successor transfer agent appointed from time to time in connection with the Bonds), and as the principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent appointed from time to time in connection with the Bonds) and any other agents named in it.

For so long as any Bond is outstanding, copies of the Trust Deed, the Agency Agreement and the Deed of Guarantee are available for inspection at all reasonable times during usual business hours at the principal office of the Trustee (being at the Additional Bonds Issue Date at 20/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong) and at the specified office of the Principal Paying Agent following prior written request and proof of holding and identity to the satisfaction of the Trustee or, as the case may be, the Principal Paying Agent. References herein to “**Paying Agents**” includes the Principal Paying Agent, references herein to “**Transfer Agent**” includes the Transfer Agent, and references to “**Agents**” means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time pursuant to the Agency Agreement with respect to the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are

deemed to have notice of, all the provisions of the Trust Deed and the Deed of Guarantee and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these terms and conditions (these “**Conditions**”) will have the meanings given to them in the Trust Deed.

## **1 Form, Specified Denomination and Title**

The Bonds are issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

The Bonds are represented by registered certificates (the “**Certificates**”) and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by transfer and registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Each holder (as defined below) shall be entitled to receive only one Certificate in respect of its entire holding of Bonds. Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Bond shall be deemed to be and shall be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

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

*Upon issue, the Bonds will be represented by one or more global certificates (collectively, the “**Global Certificate**”) registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”). These Conditions are modified by certain provisions contained in the Global Certificate. See “Summary of Provisions relating to the Bonds in Global Form”.*

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

## **2 Transfers of Bonds**

- (a) **Transfer:** A holding of Bonds may, subject to Condition 2(d), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed such form of transfer. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred (which shall be not less than the specified denomination) shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds

scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, and by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder following prior written request and proof of holding satisfactory to the Trustee. No transfer of title to a Bond will be valid unless and until entered on the Register.

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

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

*Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds represented by the Global Certificate will not be entitled to receive physical delivery of Certificates.*

- (c) **Transfer or Exercise Free of Charge:** Certificates, on transfer, exercise of an option or redemption of the Bonds, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity, and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require), (ii) the Registrar or the relevant Transfer Agent ( as the case may be) being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the Registrar or the relevant Transfer Agent (as the case may be) being satisfied that the regulations concerning transfer of Bonds have been complied with.
- (d) **Closed Periods:** No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) after any such Bond has been called for redemption, or (iii) during the period of seven days ending on (and including) any Record Date.

### **3 Status and Guarantee**

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

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

#### 4 Covenants

(a) *Negative Pledge*

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will ensure that none of their respective Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) *Undertakings relating to the Guarantee*

The Guarantor undertakes to file with the State Administration of Foreign Exchange of the PRC or its local counterparts (“SAFE”), each Deed of Guarantee within 15 Registration Business Days after execution of such Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (《跨境擔保外匯管理規定》(匯發[2014] 29號)) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014 (each, a “**Cross-Border Security Registration**”). The Guarantor shall use its best endeavours to complete each Cross-Border Security Registration and in relation to each Cross-Border Security Registration, obtain a registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before the relevant Registration Deadline and shall comply with all applicable PRC laws and regulations in relation to the Guarantee.

(c) *Undertakings relating to NDRC*

The Guarantor undertakes to file with the National Development and Reform Commission of the PRC or its local counterparts (the “**NDRC**”) the requisite information and documents within ten Registration Business Days after the Original Bonds Issue Date in the case of the Original Bonds, and within ten Registration Business Days after the Additional Bonds Issue Date in the case of the Additional Bonds, in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015] 2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (each, a “**NDRC Post-issue Filing**”) and shall comply with all applicable PRC laws and regulations in connection with the Bonds.



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

The Guarantor shall, within 20 Registration Business Days after the later of the submission of the relevant NDRC Post-issue Filing and the receipt of the registration certificate from SAFE in connection with the relevant Cross-Border Security Registration (or any other document evidencing the completion of the relevant Cross-Border Security Registration), provide the Trustee with: (i) a certificate in English substantially in the form set out in the Trust Deed signed by an Authorised Signatory (as defined in the Trust Deed) of the Guarantor confirming the completion of the relevant NDRC Post-issue Filing and the relevant Cross-Border Security Registration; and (ii) copies of the relevant documents evidencing the relevant NDRC Post-issue Filing (if any) and the relevant SAFE registration certificate(s) or any other document evidencing the completion of the relevant Cross-Border Security Registration, each certified in English by an Authorised Signatory of the Guarantor as being a true and complete copy of the original (the documents referred to in (i) and (ii) together, the “**Registration Documents**”). In addition, the Guarantor shall procure that within ten Registration Business Days after the documents comprising the relevant Registration Documents are delivered to the Trustee, the Issuer gives notice to the Bondholders (in accordance with Condition 16) confirming the completion of the relevant NDRC Post-issue Filing and the relevant Cross-Border Security Registration.

The Trustee may rely conclusively on the Registration Documents and shall have no obligation or duty to monitor or ensure or to assist with the filing or registration of the Bonds or the Deed of Guarantee with SAFE on or before the relevant Registration Deadline or the relevant NDRC Post-issue Filing within the timeframe specified in Condition 4(b) and Condition 4(c) or to verify the accuracy, completeness, validity and/or genuineness of any documents in relation to or in connection with any Cross-Border Security Registration and/or NDRC Post-issue Filing and/or the Registration Documents and/or the information and documents filed with the NDRC in the course of any NDRC Post-issue Filing and/or the documents evidencing any NDRC Post-issue Filing (if any) or to procure that any Registration Document or any other certificate, confirmation, information or document filed with the NDRC in the course of any NDRC Post-issue Filing not in English is translated into English or, if any English translation of any document is provided or retained, to verify the accuracy of any English translation of any Registration Document or any other certificate, confirmation or document or to give notice to the Bondholders confirming the completion of any Cross-Border Security Registration and/or NDRC Post-issue Filing, and shall not be liable to Bondholders or any other person for not doing so.

***(e) Financial Information***

So long as any Bond remains outstanding (as defined in the Trust Deed), the Guarantor will furnish the Trustee with (i) (A) a Compliance Certificate (on which the Trustee may rely conclusively as to such compliance and shall not be liable to any Bondholder or any other person for such reliance) and a copy of the relevant Guarantor Audited Financial Reports within 150 days of the end of each Relevant Period prepared in accordance with the Accounting Standards for Business Enterprises in China (“**PRC GAAP**”) (audited by a nationally recognised firm of independent accountants) and if such statements shall be in the Chinese language, together with an English translation of the same translated by (aa) a nationally recognised firm of independent accountants or (bb) a professional translation service provider and checked by a nationally recognised firm of independent accountants, together with a certificate in English signed by an Authorised Signatory of the Guarantor certifying that such translation is complete and accurate; and (B) a copy of the Guarantor Unaudited Financial Reports within 90 days of the end of each Relevant Period prepared on a basis consistent with the Guarantor Audited Financial Reports and if such statements shall be in the Chinese language, together with an English translation of the same and



translated by (aa) a nationally recognised firm of independent accountants or (bb) a professional translation service provider and checked by a nationally recognised firm of independent accountants, together with a certificate in English signed by an Authorised Signatory of the Guarantor certifying that such translation is complete and accurate; and (ii) a Compliance Certificate (on which the Trustee may rely conclusively as to such compliance and shall not be liable to any Bondholder or any other person for such reliance) within 14 days of a written request by the Trustee.

*(f) Definitions*

In these Conditions:

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

- (i) no Relevant Event (as defined in Condition 6(c)), Event of Default (as defined in Condition 9) or Potential Event of Default (as defined in the Trust Deed) had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and
- (ii) the Issuer or the Guarantor (as the case maybe) has complied with all its covenants and obligations under the Trust Deed, the Deed of Guarantee and the Bonds (as the case maybe) or, if any non-compliance had occurred, giving details of it;

**“Guarantor Audited Financial Reports”** means the annual audited consolidated balance sheet, income statement, statement of cash flows and statements of changes in owners’ equity of the Guarantor together with any statements, reports (including any directors’ and auditors’ reports, if any) and notes attached to or intended to be read with any of them;

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

**“NDRC”** means the National Development and Reform Commission of the PRC or its local counterparts;

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

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

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

**“Registration Deadline”** means the day falling 120 Registration Business Days after the Original Bonds Issue Date in the case of the Original Bonds, and the day falling 120 Registration Business Days after the Additional Bonds Issue Date in the case of the Additional Bonds;

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

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

**“SAFE”** means the State Administration of Foreign Exchange of the PRC or its local branch;

**“Subsidiary”** means, with respect to any person, (a) any corporation, association or other business entity of which more than 50 per cent. of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such person; or (b) any corporation, association or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person; and

**“Voting Stock”** means, with respect to any person, capital stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such person.

## **5 Interest**

The Original Bonds bear interest on their outstanding principal amount from and including the Original Bonds Issue Date and the Additional Bonds bear interest on their outstanding principal amount from and including 28 February 2021, in each case at the rate of 7.0 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.\$35.0 per Calculation Amount (as defined below) on 28 February and 28 August in each year (each an **“Interest Payment Date”**), commencing on 28 February 2021 in the case of the Original Bonds and 28 August 2021 in the case of the Additional Bonds.

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

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed. In these Conditions, the period beginning on and including the Original Bonds Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **“Interest Period”**.

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

## 6 Redemption and Purchase

- (a) **Final Redemption:** Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 28 August 2023 (the “**Maturity Date**”). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.
- (b) **Redemption for Taxation Reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice (a “**Tax Redemption Notice**”) to the Bondholders in accordance with Condition 16 (which shall be irrevocable) and in writing to the Trustee and the Principal Paying Agent, at their principal amount (together with any interest accrued to the date fixed for redemption) if the Issuer or, if the Guarantee was called, the Guarantor (as the case may be) satisfies the Trustee immediately prior to the giving of such notice that (i) the Issuer has (or, if the Guarantee were called, the Guarantor) or will become obliged to pay Additional Tax Amounts (as defined in Condition 8) as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC, or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 25 August 2020, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due.

Prior to the giving of any Tax Redemption Notice pursuant to this Condition 6(b), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee (A) a certificate in English signed by an Authorised Signatory of the Issuer (or by any Authorised Signatory of the Guarantor, as the case may be) stating that the obligation referred to in (i) above of this Condition 6(b) cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, and (B) an opinion, addressed to and in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendments. The Trustee shall be entitled (but shall not be obliged) to accept and rely conclusively upon such certificate and opinion (without further investigation or query and without liability to the Bondholders or any other person) as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(b), in which event the same shall be conclusive and binding on the Bondholders.

- (c) **Redemption for Relevant Event:** At any time following the occurrence of a Relevant Event, the holder of any Original Bond or Additional Bonds (as the case may be) will have the right, at such holder’s option, to require the Issuer to redeem all but not some only of that holder’s Original Bonds or Additional Bonds (as the case may be) on the Put Settlement Date (as defined below) at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration

Event) of their principal amount, together in each case with any accrued interest up to but excluding such Put Settlement Date. In order to exercise such right, the holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, substantially in the form scheduled to the Agency Agreement, obtainable from the specified office of the Principal Paying Agent or any other Paying Agent (a **“Put Exercise Notice”**), together with the Certificate evidencing the relevant Bonds to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to the relevant Bondholders by the Issuer in accordance with Condition 16.

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

Neither the Trustee nor the Agents shall be required to monitor whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred and shall not be liable to the relevant Bondholders or any other person for not doing so.

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

For the purpose of these Conditions:

a **“Change of Control”** occurs when:

- (i) Shandong SASAC together with any other person(s) directly or indirectly Controlled by the central government of the PRC cease to directly or indirectly Control the Guarantor;
- (ii) the Guarantor ceases to directly or indirectly hold or own 100 per cent. of the issued share capital of the Issuer; and
- (iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons, acting together, who is or are not Controlled by the central government of the PRC directly or indirectly;

**“Control”** means (i) the ownership or control of more than 50 per cent. of the voting rights of the issued share capital of the relevant person or (ii) the right to appoint and/or remove all or the majority of the members of the relevant person’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; the term **“Controlled”** has meanings correlative to the foregoing;

a **“No Registration Event”** occurs when: (i) in respect of the Original Bonds only, the Registration Conditions have not been satisfied in full on or before the Registration Deadline in relation to the Original Bonds, or (ii) in respect of the Additional Bonds only, the Registration Conditions have not been satisfied in full on or before the Registration Deadline in relation to the Additional Bonds;

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity);

“**Registration Conditions**” means the receipt by the Trustee of the Registration Documents as set forth in Condition 4(d);

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

“**Shandong SASAC**” means the Shandong Provincial State-owned Assets Supervision and Administration Commission (山東省人民政府國有資產監督管理委員會).

Neither the Agents nor the Trustee shall be required to monitor or to take any steps to ascertain whether a Relevant Event has occurred or may occur and none of them shall be liable to Bondholders, the Issuer, the Guarantor or any other person for not doing so. Neither the Agents nor the Trustee shall have no obligation or duty to verify the accuracy, validity and/or genuineness of any Registration Documents or any documents in relation to or in connection with any Relevant Event and shall not be liable to Bondholders, the Issuer, the Guarantor or any other person for not doing so.

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

- (d) **Purchase:** The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purpose of calculating quorums at meetings of the Bondholders or for the purposes of Conditions 9, 12(a) and 13.
- (e) **Notices of Redemption:** All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) and any Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail. Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under any notice of redemption or Put Exercise Notice and shall not be liable to Bondholders, the Issuer, the Guarantor or any other person for not doing so.
- (f) **Cancellation:** All Certificates representing Bonds redeemed or purchased by or on behalf of the Issuer, the Guarantor and their respective Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

## 7 Payments

### (a) Method of Payment:

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

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

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



Trustee) and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Transfer Agent, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed, in each case, as approved by the Trustee.

Notice of any such change or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders in accordance with Condition 16.

- (e) **Delay in Payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).
- (f) **Non-Payment Business Days:** If any date for payment in respect of any Bond is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "Payment Business Day" means a day (other than a Saturday, a Sunday or a public holiday) on which commercial banks and foreign exchange markets are generally open for business and settlement of U.S. dollar payment in New York City, Hong Kong and the place in which the specified office of the Principal Paying Agent is located and the relevant place of presentation.

## 8 Taxation

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

Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC up to and including the aggregate rate applicable on 25 August 2020 (the "**Applicable Rate**"), the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If (i) the Issuer is required to make a deduction or withholding by or within the British Virgin Islands, or (ii) the Issuer or, as the case may be, the Guarantor is required to make a deduction or withholding by or within the PRC in excess of the Applicable Rate, the Issuer, or as the case may be, the Guarantor shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond (or the Guarantee, as the case may be):

- (a) **Other connection:** to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands (in the case of payments made by the Issuer) or the PRC (in the case of payments made by the Issuer or the Guarantor) other than the mere holding of the Bond; or

- (b) **Surrender more than 30 days after the Relevant Date:** in respect of which the Certificate representing it is presented or surrendered (where presentation or surrender is required) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts presenting or as the case may be surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days.

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

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

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, assessments, charges, withholding or other payment referred to in this Condition 8 or otherwise in connection with the Bonds or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, the Guarantor or the Bondholders or any other person to pay such tax, duty, assessments, charges, withholding or other payment in any jurisdiction or be responsible to provide any notice or information in relation to the Bonds in connection with payment of such tax, duty, assessments, charges, withholding or other payment imposed by or in any jurisdiction.

## **9 Events of Default**

If any of the following events (“**Events of Default**”) occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least one-fifth of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided in any such case that the Trustee shall first have been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest:

- (a) **Non-Payment:** the Issuer fails to pay (i) the principal of the Bonds when due or (ii) any interest on any of the Bonds when due and such failure continues for a period of seven calendar days; or
- (b) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under the Bonds, the Deed of Guarantee or the Trust Deed (other than those referred to in Condition 9(a) and where such default gives rise to a redemption pursuant to Condition 6(c)) and such default (i) is in the opinion of the Trustee, incapable of remedy or, (ii) if in the opinion of the Trustee capable of remedy, is not remedied within 30 days after the Trustee has given written notice thereof to the Issuer and the Guarantor; or
- (c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer or the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case

may be, within any originally applicable grace period, or (iii) the Issuer or the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred in aggregate equals or exceeds U.S.\$25,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or

- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or the Guarantor or any of their respective Principal Subsidiaries and is not discharged or stayed within 30 days; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of their respective Principal Subsidiaries on the whole or any material part of its assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged or stayed within 30 days; or
- (f) **Insolvency:** the Issuer, the Guarantor or any of their respective Principal Subsidiaries is (or is, or could be, deemed by law or a court of competent jurisdiction to be) insolvent or bankrupt or unable to pay its debts when due, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any material part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any material part of (or of a particular type of) the debts of the Issuer, the Guarantor or any of their respective Principal Subsidiaries; or
- (g) **Winding-up:** an order is made by a court of competent jurisdiction or an effective resolution is passed for the winding-up or dissolution of the Issuer, the Guarantor or any of their respective Principal Subsidiaries (except for the voluntary solvent winding-up of any such Principal Subsidiary), or the Issuer, the Guarantor or any of their respective Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of the Principal Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or (iii) a disposal of or by a Principal Subsidiary on an arm's-length basis where the assets (whether in cash or otherwise) from such disposal shall be transferred to or otherwise vested in the Issuer, the Guarantor or any of their Subsidiaries; or
- (h) **Nationalisation:** any step is taken by any person under the authority of any national, regional or local government with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any of their respective Principal Subsidiaries; or
- (i) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective

rights and perform and comply with their respective obligations under the Bonds, the Deed of Guarantee and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds, the Deed of Guarantee and the Trust Deed admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or

- (j) **Illegality:** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds, the Deed of Guarantee or the Trust Deed; or
- (k) **Unenforceability of Guarantee:** the Guarantee becomes unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force and effect by the Guarantor; or
- (l) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 9.

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

- (i) whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue, as shown by its latest audited income statement is at least five per cent. of the consolidated revenue as shown by the latest published audited consolidated income statement of the Issuer or the Guarantor (as applicable) including, for the avoidance of doubt, the Issuer’s or the Guarantor (as applicable) consolidated Subsidiaries’ share of revenue of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests;
- (ii) whose net profit or (in the case of a Subsidiary which itself has Subsidiaries) consolidated net profit, as shown by its latest audited income statement are at least five per cent. of the consolidated net profit as shown by the latest published audited consolidated income statement of the Issuer or the Guarantor (as applicable) including, for the avoidance of doubt, the Issuer’s or the Guarantor’s (as applicable) consolidated Subsidiaries’ share of net profit of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (iii) whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total assets, as shown by its latest audited balance sheet are at least five per cent. of the amount as shown by the latest published audited consolidated balance sheet of the Issuer or the Guarantor (as applicable) including, for the avoidance of doubt, the investment of the Issuer or the Guarantor (as applicable) in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer or the Guarantor (as applicable) and after adjustment for minority interests;
- (iv) provided that, in relation to paragraphs (i), (ii) and (iii) above of this definition:
  - (a) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer or the Guarantor (as applicable) relate, the reference to the then latest consolidated audited accounts of the Issuer or the Guarantor (as applicable) for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer or the Guarantor (as applicable) for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer or the

Guarantor (as applicable) adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

- (b) if at any relevant time in relation to the Issuer or the Guarantor (as applicable) or any Subsidiary of the Issuer or the Guarantor (as applicable) which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, net profit or total assets of the Issuer or the Guarantor (as applicable) and/or any such Subsidiary of the Issuer or the Guarantor (as applicable) shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Issuer or the Guarantor (as applicable);
- (c) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, net profit or total assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer or the Guarantor (as applicable);
- (d) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above of this definition) are not consolidated with those of the Issuer or the Guarantor (as applicable), then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer or the Guarantor (as applicable) prepared for this purpose by the Issuer or the Guarantor (as applicable); and
- (e) in the case of a Subsidiary to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary upon such transfer but shall cease to be a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Issuer or the Guarantor (as applicable) prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition.

## **10 Prescription**

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

## **11 Replacement of Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity, prefunding and otherwise as (a) the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice) or (b) the Registrar or the relevant Transfer Agent (as the case may be) may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.



## 12 Meetings of Bondholders, Modification, Waiver and Substitution

- (a) **Meetings of Bondholders:** The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including without limitation the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Agency Agreement or the Deed of Guarantee. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested in writing to do so by the Bondholders holding not less than 10 per cent in aggregate principal amount of the Bonds for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing the Bondholders whatever the aggregate principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Deed of Guarantee (other than as contemplated in Condition 12(b)) in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed). The Trust Deed provides that a resolution (a) in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of the Bonds outstanding or (b) passed by Electronic Consent (as defined in the Trust Deed) shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.
- (b) **Modification and Waiver:** The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, the Deed of Guarantee or the Agency Agreement that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed and/or the Deed of Guarantee), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement and/or the Deed of Guarantee, that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, any modification, authorisation or waiver shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 16.
- (c) **Entitlement of the Trustee:** In connection with performance and the exercise of its functions, rights, powers and/or discretions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interest of, or be responsible for, the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require on behalf of any Bondholder, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.



### **13 Enforcement**

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

### **14 Indemnification of the Trustee**

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

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Bondholder, the Issuer, the Guarantor or any other person for any action taken by the Trustee or such Agent in accordance with the instructions, direction or request of the Bondholders. The Trustee and the Agents shall be entitled to rely on any instruction, direction, request or resolution of Bondholders given by Bondholders holding the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed or passed as otherwise provided in the Trust Deed. Neither the Trustee nor any of the Agents shall be under any obligation to ascertain whether any Event of Default, Potential Event of Default or Relevant Event has occurred or to monitor compliance by the Issuer or the Guarantor with the provisions of the Trust Deed, the Agency Agreement, the Deed of Guarantee or these Conditions, and shall not be liable to the Bondholders or any other person for not doing so.

The Trustee shall have no obligation to monitor compliance with the provisions of the Trust Deed, the Deed of Guarantee, the Agency Agreement or these Conditions or whether an Event of Default or a Potential Event of Default or a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred, and shall not be liable to the Bondholders or any other person for not doing so.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Deed of Guarantee, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Bondholders by way of an Extraordinary Resolution or clarification of any directions, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Guarantor, the

Bondholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification as a result of seeking such directions or in the event that no such direction or clarification is given to the Trustee by the Bondholders.

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

Each Bondholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, the Guarantor and their respective Subsidiaries, and the Trustee shall not at any time have any responsibility for the same and each Bondholder shall not rely on the Trustee in respect thereof.

## **15 Further Issues**

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them and the timing for compliance with the requirements set out in these Conditions in relation to the NDRC Post-issue Filing and the Cross-Border Security Registration or for the exercise of a redemption for a No Registration Event) and so that such further issue shall be consolidated and form a single series with the outstanding Bonds. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and consolidated and forming a single series with the Bonds. Any further securities shall be constituted by a deed supplemental to the Trust Deed and be guaranteed by the Guarantor pursuant to a deed supplemental to the Deed of Guarantee.

## **16 Notices**

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

*So long as the Global Certificate is held in its entirety on behalf of Euroclear and Clearstream, any notice to the holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by these Conditions and shall be deemed to have been given on the date of delivery to such clearing system.*

## 17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999 but this shall not affect any right or remedy which exists or is available apart from such Act and is without prejudice to the rights of the Bondholders as set out in Condition 13.

## 18 Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Agency Agreement, the Deed of Guarantee and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Trust Deed, the Agency Agreement and the Deed of Guarantee and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Trust Deed, the Agency Agreement and the Deed of Guarantee (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.
- (c) **Agent for Service of Process:** The Issuer and the Guarantor has irrevocably appointed in the Trust Deed and the Deed of Guarantee an agent in Hong Kong to receive service of process in any Proceedings in Hong Kong based on any of the Bonds or the Guarantee. If for any reason the Issuer or the Guarantor, as the case may be, ceases to have such an agent in Hong Kong, it will promptly appoint a substitute process agent and shall notify the Trustee of such replacement within 30 days of such cessation. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- (d) **Waiver of Immunity:** Each of the Issuer and the Guarantor has waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

*The Global Certificate contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions set out in this Offering Circular. The following is a summary of certain of those provisions.*

*Terms defined in the Terms and Conditions set out in this Offering Circular have the meaning in the paragraphs below.*

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

Under the Global Certificate, the Issuer, for value received, will promise to pay such principal, interest and premium (if any) on the Bonds to the holder of the Bonds on such date or dates as the same may become repayable in accordance with the Terms and Conditions.

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

Individual definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate. Such exchange will be effected in accordance with the provisions of the Trust Deed, the Agency Agreement and the regulations concerning the transfer and registration of the Bonds scheduled thereto and, in particular, shall be effected without charge to any holder of the Bonds or the Trustee, but against such indemnity and/or security as the Registrar or the relevant Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

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

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

### **Payment**

So long as the Bonds are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person shown as the holder of the Bonds in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the due date for such payments, where “**Clearing System Business Day**” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

## **Calculation of Interest**

So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, the Issuer has promised, inter alia, to pay interest in respect of such Bonds from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by such Global Certificate.

## **Notices**

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

## **Meetings**

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

## **Bondholder's Redemption**

The Bondholder's redemption option in Condition 6(c) (*Redemption for Relevant Event*) of the Terms and Conditions may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent within the time limits set out in the Terms and Conditions, in accordance with the rules and procedures of the relevant clearing system failing which, in the form of the notice of redemption available from any Paying Agent and stating the principal amount of Bonds in respect of which the option is exercised within the time limits specified in the Terms and Conditions.

## **Issuer's Redemption**

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

## **Transfers**

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

## **Cancellation**

Cancellation of any Bond by the Issuer following its redemption or purchase by the Issuer, the Guarantor or any of their respective Subsidiaries will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders and the Global Certificate on its presentation to or to the order of the Registrar for annotation (for information only) in the schedule to the Global Certificate.

## **Trustee's Powers**

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

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



## **USE OF PROCEEDS**

The gross proceeds from the offering of the Additional Bonds (after taking into account the issue price but before adding accrued interests from (and including) 28 February 2021 to (but excluding) 11 June 2021) will be U.S.\$139,979,000. Such proceeds, after deducting commissions and other estimated expenses payable in connection with the offering of the Additional Bonds, will be used for refinancing certain offshore indebtedness, retail business development and offshore business development.

## CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated total indebtedness (both current and non-current portions), total equity and total capitalisation of the Guarantor as at 31 December 2020 on an (i) actual basis and (ii) adjusted basis to give effect to the Additional Bonds to be issued. The summary consolidated financial information below should be read in conjunction with the Guarantor's consolidated financial statements and the notes to those statements included elsewhere in this Offering Circular.

	As at 31 December 2020			
	Actual		As adjusted	
	RMB	U.S.\$ <sup>(1)</sup>	RMB	U.S.\$ <sup>(1)</sup>
	<i>(in millions)</i>			
<b>Current indebtedness:</b>				
Short-term loans . . . . .	15,471.9	2,371.2	15,471.9	2,371.2
Non-current liabilities maturing within one year . . . . .	15,639.6	2,396.9	15,639.6	2,396.9
<b>Total current indebtedness . . . . .</b>	<b>31,111.5</b>	<b>4,768.0</b>	<b>31,111.5</b>	<b>4,768.0</b>
<b>Non-current indebtedness:</b>				
Long-term loans . . . . .	7,947.8	1,218.0	7,947.8	1,218.0
Bonds payable . . . . .	3,925.4	601.6	3,925.4	601.6
Long-term payables . . . . .	1,710.1	262.1	1,710.1	262.1
Additional Bonds to be issued <sup>(2)</sup> . . . . .	—	—	913.5	140.0
<b>Total non-current indebtedness . . . . .</b>	<b>13,583.3</b>	<b>2,081.7</b>	<b>14,496.8</b>	<b>2,221.7</b>
<b>Total indebtedness<sup>(3)</sup> . . . . .</b>	<b>44,694.8</b>	<b>6,849.8</b>	<b>45,608.3</b>	<b>6,989.8</b>
<b>Total equity . . . . .</b>	<b>22,530.0</b>	<b>3,452.9</b>	<b>22,530.0</b>	<b>3,452.9</b>
<b>Total capitalisation<sup>(4)</sup> . . . . .</b>	<b>67,224.8</b>	<b>10,302.7</b>	<b>68,138.3</b>	<b>10,442.7</b>

*Notes:*

- (1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5250 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve Bank System on 31 December 2020.
- (2) Represents the aggregate principal amount of the Additional Bonds to be issued, before deducting commissions and other estimated expenses payable in connection with the offering of the Additional Bonds.
- (3) Total indebtedness equals the sum of the current indebtedness and non-current indebtedness.
- (4) Total capitalisation represents the sum of total indebtedness and total equity.

There has been no material change in the consolidated capitalisation and indebtedness of the Guarantor since 31 December 2020. The Group will continue to incur indebtedness from time to time for general corporate purposes in the ordinary course of its business, including but not limited to refinancing of existing indebtedness and funding its operations in the ordinary course of business.

## DESCRIPTION OF THE ISSUER

### Overview

The Issuer is a limited liability company incorporated under the BVI Business Companies Act, 2004 of the British Virgin Islands (BVI Company Number: 2029958). It was incorporated in the British Virgin Islands on 10 January 2020. The Issuer is a wholly-owned subsidiary of the Guarantor. The registered office of the Issuer is at OMC Chambers, Wickhams Cay 1, Road Town, Tortola, VG1110, British Virgin Islands.

### Business Activities

The Issuer was established with full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and has full rights, powers and privileges for the above purposes pursuant to the objects and powers set out in its memorandum of association. As at the date of this Offering Circular, the Issuer does not carry and has not carried on any business other than entering into arrangements for the issue of the securities and, except for the Original Bonds issued on 28 August 2020, the Issuer has no debt outstanding and contingent liabilities. As at the date of this Offering Circular, the Issuer has no subsidiaries and no material assets or liabilities.

### Sole Director

The sole director of the Issuer is XU, FENG (徐峰).

### Share Capital

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1.00 each. As at the date of this Offering Circular, 50,000 shares have been issued and credited as fully paid. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing of or permission to deal in such securities is being or proposed to be sought.

### Financial Information

Under British Virgin Islands law, the Issuer is not required to publish condensed or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of the Issuer's affairs and to explain its transactions.

### Legal Proceedings

The Issuer is not involved in any litigation or arbitration proceedings, and it is not aware of any pending or threatened action against it.

## DESCRIPTION OF THE GROUP

### Overview

The Group is a leading state-owned conglomerate based in Shandong Province, the PRC. Founded in 1992, the Group engages primarily in retail business, pharmaceutical business and health and wellness properties business, and operates under a strong brand portfolio, consisting primarily of “INZONE (銀座)”, “FREDA (福瑞達)” and “LUSHANG (魯商)”. The Group also expands its footprints in cultural tourism, education, healthcare, media business, financial services and e-commerce and several other businesses. As a Shandong SASAC-controlled entity, the Group consisted of 41 subsidiaries as at 31 December 2020, including two publicly-listed subsidiaries in the PRC, namely Inzone Group Co., Ltd. (銀座集團股份有限公司, 600858.SH) and Lushang Health Industry Development Co., Ltd. (魯商健康產業發展股份有限公司, 600223.SH). With a proven track record, the Group has received numerous awards and recognitions, including being ranked 152nd in “Top 500 Chinese Enterprises in 2017 (2017中國企業500強)” and 65th in “Top 500 Service Companies in China in 2017 (2017中國服務企業500強)”, respectively, in terms of operating income by China Association of Enterprises (中國企業聯合會) and China Entrepreneur Association (中國企業家協會). Set forth below is a summary of each of the Group’s business segments:

- **Retail Business.** Retail business is the Group’s core business. The Group is a leading retail business operator in Northern China. It ranked first among all retail business operators in Shandong Province in terms of operating income by China General Chamber of Commerce (中國商業聯合會) and China National Commercial Information Centre (中華全國商業信息中心) in 2018 and ranked first among all chain store operators in Shandong Province in terms of sales volume by China Chain Store & Franchise Association (中國連鎖經營協會) in 2019. As at 31 December 2020, it operated 177 department stores, 204 convenience stores, eight homeware stores, 61 electrical appliance stores, five shopping centres and six 4S sales outlets mainly under the brands “INZONE (銀座)” and “Uni-Mart (統一銀座)”. These stores are located across all 16 municipalities in Shandong Province, as well as nearby cities in Henan Province, Hebei Province and Beijing.
- **Pharmaceutical Business.** The Group’s pharmaceutical business is engaged in the research and development, manufacture and sale and distribution of a broad range of pharmaceutical and healthcare products. The Group’s key products include western and Chinese medicines for neck pain relief and cold treatment, medical supplies, health supplements, chemical raw materials and skincare products. Its products are sold through an extensive sales and distribution network nationwide. The Group is dedicated for years in research and development. It has a strong track record in developing products, as well as a robust research and development product pipeline. As at 31 December 2020, the Group obtained 64 approvals from the China Food and Drug Administration (國家食品藥品監督管理總局) for new drug certificate applications and registered 67 patents for new drugs in the PRC.
- **Health and Wellness Properties Business.** The Group’s health and wellness properties business involves the development and sale of residential and commercial properties. As at 31 December 2020, the Group had a total of 43 projects at various stages of development, primarily located in Jinan, Qingdao, Harbin and Chongqing. The Group has developed and launched three major product series to the market, namely, “Lushang City Square (魯商城市廣場)”, “Lushang Garden Residence (魯商花園住宅)” and “Lushang Ecological Villa (魯商生態別墅)”, which have been well received by its customers. As at 31 December 2020, the Group had a land bank with a total site area of approximately 1,193,300 sq.m.
- **Other Businesses.** The Group also engages in other businesses, primarily including cultural tourism, education, healthcare, media businesses and financial services and e-commerce business. Revenues from each business historically recorded a relatively small percentage as compared to the Group’s total operating income.

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

	Year ended 31 December					
	2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions)		(RMB in millions)		(RMB in millions)	
Retail business . . . . .	27,184	71.6	27,414	68.8	18,629	52.0
Pharmaceutical business . . .	858	2.3	1,039	2.6	1,477	4.1
Health and wellness properties business . . . . .	7,963	21.0	9,250	23.2	12,139	33.9
Other businesses . . . . .	1,950	5.1	2,129	5.4	3,557	9.9
<b>Total operating income . . .</b>	<b>37,956</b>	<b>100.0</b>	<b>39,833</b>	<b>100.0</b>	<b>35,802</b>	<b>100.0</b>

The Group has maintained a stable growth. For the years ended 31 December 2018, 2019 and 2020, total operating income from the Group's business operation was RMB37,956 million, RMB39,833 million and RMB35,802 million, respectively. As at 31 December 2018, 2019 and 2020, the total assets of the Group were RMB94,104 million, RMB103,386 million and RMB117,357 million, respectively.

### Competitive Strengths

The Group believes that the following strengths are important to its success and future development:

#### *Strong support from the Shandong Provincial Government*

The Group is a leading state-owned conglomerate based in Shandong Province. In view of the Group's strategic importance and significant social and economic contributions to Shandong Province, the Shandong Provincial Government has since its inception provided a variety of important and special initiatives and policies for its development.

The Group is owned by and under the direct supervision and administration of Shandong SASAC. As at the date of this Offering Circular, Shandong SASAC held approximately 70 per cent. of the equity interest in the Company. The Group believes that Shandong SASAC will continue to be its single largest direct or indirect shareholder. With the Group's state-owned background, the Group derives strong support (but excluding credit support) from the Shandong Provincial Government and maintains its position as a leading state-owned conglomerate in Shandong Province. The Group has extensive relationships with the Shandong Provincial Government and other entities directly or indirectly controlled by it. Since 2016, the Group has acted as the state-owned capital investment platform of the Shandong Provincial Government according to the Reply of Shandong Provincial State-owned Assets Supervision and Administration Commission on the Implementation Plan of Shandong Commercial Group Co., Ltd.'s Transition to State-owned Capital Investment Company (LuGuo Zi Qi Gai Zi [2016] No. 18) (山東省國資委關於山東省商業集團有限公司改建國有資本投資公司實施方案的批復(魯國資企改字[2016] 18號)), and is commissioned by the Shandong Provincial Government and other local governmental entities and agencies to play an important role in the strategic planning and operation of many major industrial transformation projects and public projects, such as the integration of provincial cultural tourism resources and the foundation and operation of educational institutions in Shandong Province. For example, the Group has entered into commercial arrangements and/or strategic co-operation agreements with a number of cities in Shandong Province, such as Tai'an, Jinan, Qingdao and Weihai, for the implementation of 18 projects as at the date of this Offering Circular under the "Revitalising Rural Areas (鄉村振興)" national strategy, covering more than 50 villages.

The Group has also received various favourable policies, business opportunities, asset and capital injections, government subsidies and other grants and tax incentives from the Shandong Provincial Government and other entities and enterprises controlled by it. For example, Shandong Silver Plaza Group Investment Co., Ltd. (山東省銀座集團投資有限公司), the predecessor of one of the Group's key subsidiaries, Lushang Group Co., Ltd., was entirely injected into the Company in 2008. In November 2018, the Group's subsidiary, Shandong Cultural Tourism Development Co., Ltd. (山東省文化旅遊發展集團有限公司), was injected into the Company by the Shandong Provincial Government with the aim to consolidate and optimise the cultural and tourism resources, such as cultural heritage, hotels, travel agencies, resorts and art performance business, in Shandong Province, so as to cover a wide range spectrum of tourism-related and leisure-related services and destinations, including primarily of boutique hotels, tourism destination, cultural media, special school, rural revitalization and cultural tourism investment. In April 2020, Shandong Provincial Government and Shandong Financial Bureau transferred 61.8 per cent. and 30.8 per cent. equity interests in Beijing Taishan Hotel Co., Ltd. (北京泰山飯店) held by Beijing Shandong Hotel (北京山東賓館) and Shandong International Trust Co., Ltd. (山東省國際信託股份有限公司), respectively, to the Group. For the years ended 31 December 2018, 2019 and 2020, the Group received government subsidies amounting to RMB79.1 million, RMB87.3 million and RMB160.6 million, respectively.

Furthermore, a number of favourable national policies and measures on urban development and industrial transformation have been recently introduced, further brightening the prospects of the Group's core businesses. For example, the Shandong Provincial Government and the Party Committee of Shandong Province jointly published the "Plan on Implementing the Strategy of Revitalising Rural Areas in Shandong Province (2018–2022) (山東省鄉村振興戰略規劃(2018–2022年))" in 2018, clarifying the general requirements, basic principles, tasks and targets, and measures and policies of implementing the "Revitalising Rural Areas (鄉村振興)" national strategy in Shandong Province. The Shandong Provincial Government has also launched the "Major Project on Replacing Old Drivers with New Drivers in Shandong Province (山東全面展開新舊動能轉換重大工程)" in 2018, aiming to promote supply-side structural reforms and high quality development, deepen reform and opening-up, and foster competitive modern industrial clusters. The Shandong Provincial Government has also launched the "Plan on Development of Medical Care and Eldercare Industry in Shandong Province (2018–2022) (山東省醫養健康產業發展規劃 (2018–2022年))" in 2018, clarifying the basic principles, tasks and targets of developing the medical care and eldercare industry and designating several key fields and geographical areas of implementing the development plan in Shandong Province. These favourable policies and supports have brought significant business opportunities for the Group.

#### ***The leader of retail business operation in Shandong Province with distinct brand identity***

Retail business is the Group's core business. Over the years, the Group has become the leader of retail business operation in Shandong Province and a leading retail business operator in Northern China. It was ranked first in Shandong Province and 20th among all retail business operators in China in terms of operating income by China General Chamber of Commerce (中國商業聯合會) and China National Commercial Information Centre (中華全國商業信息中心) in 2018, ranked first in Shandong Province and 20th among all chain store operators in China in terms of sales volume by China Chain Store & Franchise Association (中國連鎖經營協會) in 2019, and ranked 30th among all enterprises in Shandong Province in terms of brand value by Shandong Corporate Culture Society (山東省企業文化學會) in 2018. It was also successively honoured as "Honest Lushang (厚道魯商)", one of the "Top 10 National Retailers in Fair Trade (Honest) (全國零售商公平交易(誠信)十佳企業)", one of the "Outstanding Enterprises in Shandong Province (山東省優秀企業)", one of the "Top 10 Commercial Brands in Shandong Province (山東省十佳商業品牌)", the "Most Influential Home Store in Shandong Province (山東省最具影響力家居賣場)" and one of the "Top 100 Car Dealer Groups in China (中國百強汽車經銷商集團)".

The Group conducts its retail business primarily in Shandong Province under the brand name of "INZONE (銀座)", which possesses distinct geographical advantages. Shandong Province is one of the richest and fastest growing provinces in China. It is also a large coastal province between the



Bohai Economic Rim and the Yangtze River Delta of the PRC. In line with the continuous urbanisation, Shandong Province gained a solid foundation for its rapid growth of consumer spending power. According to the Department of Commerce of Shandong Province (山東省商務廳), Shandong Province's total retail sales of consumer goods was RMB2,924.8 billion in 2020, and its annual urban consumption expenditure per capita and annual rural consumption expenditure per capita reached RMB2,367.1 billion and RMB557.6 billion, respectively, in 2020.

The Group operates a variety of retail stores, such as department stores, convenience stores, homeware stores, electrical appliance stores, shopping centres and 4S sales outlets, as well as owns specialized entities to provide e-commerce, logistic services, food processing, jewellery, wines and electrical appliance businesses. Given the continuous economic growth and consumer spending power of Shandong Province, the Group's distinct brand and remarkable geographic advantages and retail outlets network have laid a solid foundation for its future development prospects.

### ***Multi-format retailing to meet diverse customer demands***

Through synergistic operation of the Group's diversified business segments covering retail business, pharmaceutical business, health and wellness properties business, cultural tourism, education, healthcare, media business and financial services and e-commerce business, the Group offers a wide range of products and services through multiple retailing channels which are tailored to meet the diverse demands of its customers in various industries.

As the leader of retail business operation in Shandong Province and a leading retail business operator in Northern China, the Group provides different customer goods and services through its comprehensive store portfolio that covers basic necessities of life. As at 31 December 2020, the Group operated 177 department stores, 204 convenience stores, eight homeware stores, 61 electrical appliance stores, five shopping centres and six 4S sales outlets across all 16 municipalities in Shandong Province, as well as nearby cities in Henan Province, Hebei Province and Beijing.

The Group operates as the primary property developer which engages in the development and sales of residential properties and commercial properties, which comprises residential projects and integrated residential communities with comprehensive ancillary facilities including retail shops, as well as commercial apartments, offices, hotels, shopping malls and shopping zones featuring dedicated retail areas within Shandong Province, Beijing, Chongqing and Heilongjiang Province. As at 31 December 2020, the Group had a total of 25 projects under development.

For its pharmaceutical business, the Group engages in the research and development, manufacture and sale and distribution of a broad range of pharmaceutical and healthcare products, including western and Chinese medicines for neck pain relief and cold treatment, medical supplies, health supplements, chemical raw materials and skincare products, which are sold through an extensive sales and distribution network nationwide.

The Group has established several education institutions, including Shandong Institute of Commerce & Technology (山東商業職業技術學院) which is the only national demonstrative vocational colleges in Shandong Province and one of the ten Class A vocational schools in China, Qingdao Vocational and Technical College of Hotel Management (青島酒店管理職業技術學院) which is the first specialised hotel management school in China and a Class C vocational school in China, Shandong Province City Service Technician College (山東省城市服務技師學院) which is distinguished in development of Shandong cuisine. As at 31 December 2020, over 65,000 students were enrolled to the Group's education institutions.

The Group has also integrated internal resources in health, pension, health care and other aspects for the development and promotion of elderly services business. Lushang Freda International Eldercare Centre (魯商·福瑞達國際頤養中心) and Linyi Zhichun Lake (臨沂知春湖項目) have become one of the first batch modelling units in Shandong Province.

The Group believes that its well-diversified business portfolio can satisfy the various needs of its customers in different industries.

#### ***Stable and long term relationships with high-quality brand owners***

Over years of operations, the Group has established and maintained stable and long term relationships with a number of high-quality domestic and international brand owners, in which the Group retails their branded commodities through its comprehensive store portfolio, including department stores, convenience stores, homeware stores, electrical appliance stores, shopping centres and 4S sales outlets across all 16 municipalities in Shandong Province, as well as nearby cities in Henan Province, Hebei Province and Beijing. The Group provides a broad mix of branded home products and services, such as “Jomoo (九牧)”, “Qumei (曲美家居)”, “Quanyou (全友家居)”, “Oppei (歐派)”, “Kohler (科勒)”, “Arrow (箭牌衛浴)”, “Suofeiya (索菲亞)” and “Markor Furnishings (美克•美家)”, in its homeware stores. In addition, the Group provides customers with a wide range of merchandise with diverse brand mix, such as GUCCI, Prada, Louis Vuitton, Hermes, Dior, Chanel and Omega, in its department stores and shopping centres. The Group also operates 4S dealership under the brands of Audi, FAW-Volkswagen, Shanghai Volkswagen, Shanghai General Motor, Skoda and Guangzhou Hongda. The Group believes that its ability to secure and maintain stable and long-term business relationships with high-quality brand owners is one of the key factors driving its success.

#### ***Diversified funding sources and prudent asset and debt management strategy***

The Group has diversified financing channels to satisfy its capital requirements. To maintain stable financing sources and low funding costs, the Group has been able to build up close working relationships with many major banks in the PRC, such as China Construction Bank, Bank of China, Industrial and Commercial Bank of China, Bank of Communications, China Everbright Bank, China Bohai Bank, China Zheshang Bank, China CITIC Bank, China Merchants Bank, Bank of Beijing, Hengfeng Bank and Qilu Bank. As at 31 December 2020, the Group had obtained credit line of approximately RMB46.3 billion, among which approximately RMB17.3 billion remained undrawn.

The Group also raised funds through equity and debt offerings in the onshore capital markets. The Group has listed its two subsidiaries namely Inzone Group Co., Ltd. (銀座集團股份有限公司, 600858.SH) and Lushang Health Industry Development Co., Ltd. (魯商健康產業發展股份有限公司, 600223.SH) on the Shanghai Stock Exchange. In addition, the Group diversifies its source of funding through the issuance of various debt securities comprising medium-term notes, super-short term and short-term commercial papers, private placement notes and publicly and private offered corporate bonds from the PRC capital markets or the overseas capital market. The Group has maintained an “AA+” corporate rating issued by China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司). The Group believes that its strong financing capabilities will continue to provide adequate sources of funding for its daily operation, business development and debt repayment.

Regardless of its sufficient funding sources, the Group has maintained a prudent asset and debt management strategy, aiming to optimise the asset and debt structure and lower the debt to asset ratio to a more comfortable and sustainable level. The Group’s debt to asset ratio decreased from 81.92 per cent. as at 31 December 2018 to 80.82 per cent. as at 31 December 2019 and further decreased to 80.80 per cent. as at 31 December 2020.

#### ***Sound corporate governance with experienced management***

The Group’s success is largely attributable to sound and effective corporate governance and extensive experience, strategic visions and leadership of its directors and senior management team. As a leading state-owned conglomerate, the Group is closely supervised by the Shandong Provincial Government and Shandong SASAC and has extensive relationships with the Shandong Provincial Government and other entities directly or indirectly controlled by it. The Group’s directors and senior management have extensive experience and expertise in business operations, human resources and financial

management in industries where the Group operates. Further, the directors and senior management of the Group are highly experienced in collaborating with various levels of government authorities in strategically significant public projects such as the foundation and operation of educational institutions in Shandong Province. A number of the Group's directors and senior managers have previously served as senior officials within various state-owned enterprises and government departments, whose understanding of the regulatory framework and government policies contributes to the development of the Group's business. Under the sound leadership of the Group's management team and leveraging on their experience, the Group has successfully achieved its missions over the years and distinguished itself from competitors. For more information on the experience and expertise of the Group's directors and senior management, see "Directors and Senior Management".

## **Business Strategies**

The Group intends to focus on the following business strategies:

***Develop into a leading conglomerate in Shandong Province as well as a renowned full service group in China by leveraging synergies among the Group's different business segments and promoting innovation***

The Group aims to become a leading conglomerate in Shandong Province as well as a renowned full service group in China. To achieve this, the Group plans to continue to maintain its focus in Shandong Province with retail business as its core business, and to promote the development of its commercial complex and healthcare business through leveraging synergies among its different business segments, including pharmaceutical business, health and wellness properties business and financial service business and to leverage on the Group's advantages in emerging businesses to promote innovation.

***Further implement major national and regional development strategies and optimise the business models of the Group's various businesses to support industrial transformation and public services in Shandong Province***

As the state-owned capital investment platform of the Shandong Provincial Government, the Group is commissioned by the Shandong Provincial Government and other local governmental entities and agencies to play an important role in the strategic planning and operation of many major industrial transformation projects and public projects. The Group plans to continue implement major national and regional development strategies such as "Replacing Old Drivers with New Drivers (新舊動能轉換)", "Revitalising Rural Areas (鄉村振興)" and "Opinions on the Implementation of Promoting the Development of Eldercare Services (關於推進養老服務發展的實施意見)". For example, as the sole cultural and tourism platform in Shandong Province, the Group will continue to actively participate in the promotion of the "Revitalising Rural Areas (鄉村振興)" national strategy in Shandong Province through the promotion of "Six Establishments in the Rural Areas (六進村)"<sup>1</sup> to achieve a development model with "six abilities (六能)"<sup>2</sup> and "seven changes (七變)" and deeply rooted in the eldercare industry by integrating relevant resources and the full industry chain (全產業鏈) with the comprehensive health industry (大健康產業). The Group also plans to further optimise the business models of its various businesses, such as pharmaceutical manufacturing, automobile and material trading business, which the Group has already obtained comparative advantage, and continue to promote industrial restructuring and mix-ownership reform within the Group, and to capture new opportunities from, and adapt to new challenges in, the age of Internet.

<sup>1</sup> Representing the establishment of (1) Yingzuo Kindergarten (銀座幼稚園), (2) Freda Health Eldercare (福瑞達健康養老), (3) Smart Retail (智慧零售), (4) Elite Travel (精品旅遊), (5) vocational school (職業學校) and (6) national agricultural products centre (國家農產品中心) in the rural areas.

<sup>2</sup> Representing the ability to provide hospitality services and to increase the level of income of the people in rural areas.

***Further expand the existing businesses through promoting innovation, enhancing management and other measures***

Rooted on a retail network under its reputable brand “INZONE (銀座)”, the Group develops its various business lines in parallel under the principal of “place same weight on development and enhancement, speed and efficiency, scale-up and competitiveness of business”. Specifically, the Group further expands its existing businesses by promoting innovation and enhancing service quality and business efficiency through organic growth and capital operation. The Group also intends to enhance the complement between intensive management and professional operation, take the advantage of Internet and new technology, integrate online and offline resources and promote innovative business model and operation. For example, the Group has cooperated with Alibaba Group (阿裡巴巴集團) and entered into a memorandum of understanding of “New Commercial Retail Project (商業新零售項目)” to explore new digital transformation model relevant to new retail (新零售) and smart industry (智慧產業). The Group has also launched a number of projects, such as INZONE Home Delivery (銀座到家), Youth Business Incubator Programme (青年創業孵化器項目) and Shandong International Car Centre Project (山東國際汽車中心項目), through strategic corporation with third parties such as home delivery companies and cross-border e-commerce companies, in order to refine, transform and upgrade its retail business. In addition, the Group has established four operation centres namely Online Retailing Operation Centre (線上零售運營中心), Physical Store Operation Centre (實體運營中心), Logistics Operation Centre (物流運營中心) and Supply Chain Financial Operation Centre (供應鏈金融運營中心), which accelerate the transformation of the Group’s retail business. The Group will continue to focus on realising customer value, optimising resource sharing, adjusting asset structures, as well as strengthening its management system with the implementation of standardisation and delicacy management.<sup>3</sup>

***Deepen its footprint in Shandong market and expand the coverage of the Group’s geographical business landscape to nearby regions***

As a leading state-owned conglomerate based in Shandong Province, the Group has benefited from the excellent location and economic development potential of Shandong Province, which is one of the richest and fastest growing provinces in China. In line with the continuous urbanisation, Shandong Province gained a solid foundation for its rapid growth of consumer spending power. The Group intends to deepen its footprint in Shandong market and further expand the coverage of the Group’s geographical business landscape to nearby regions.

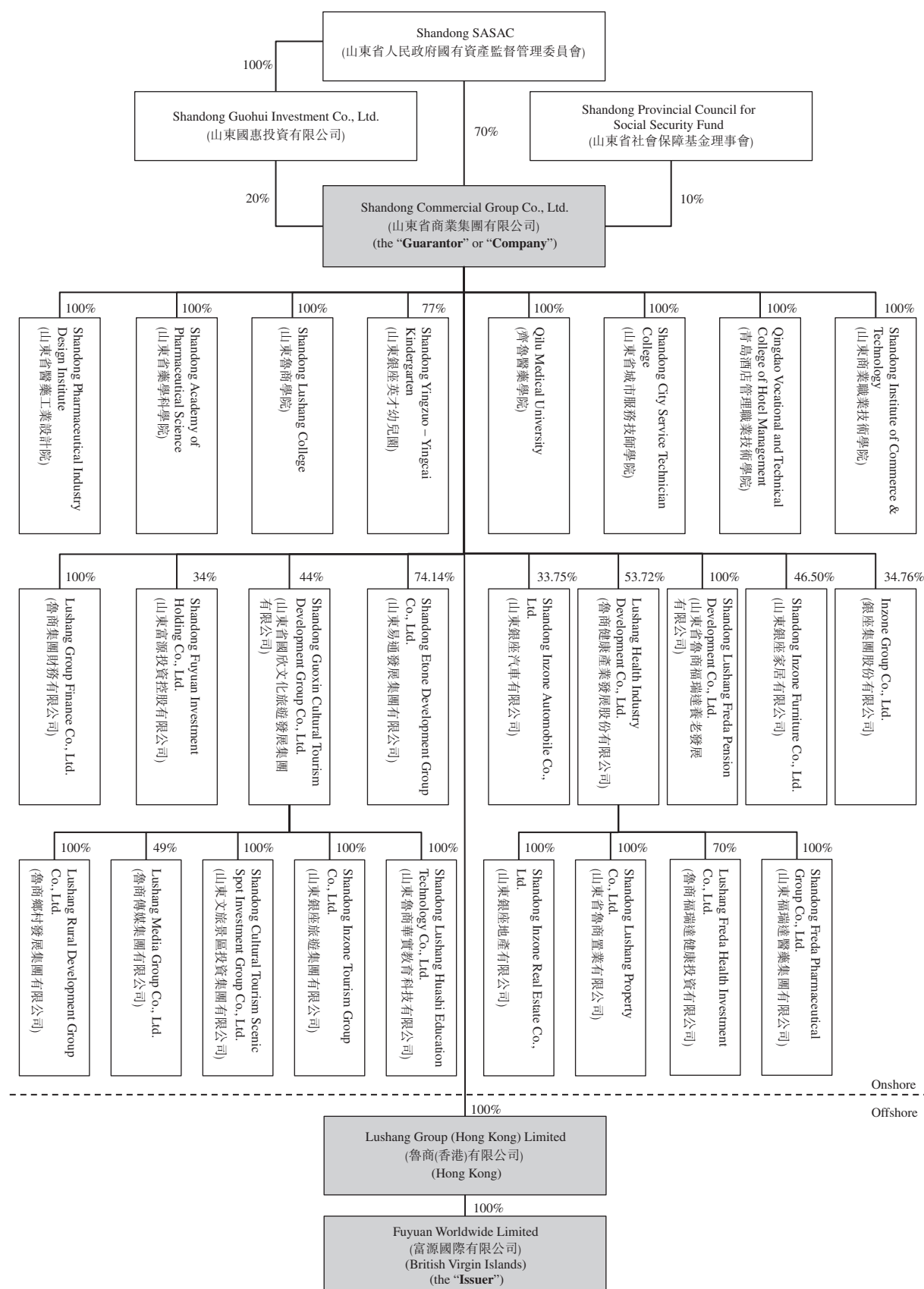
***Continue optimise the structure of its talent pool***

The Group believes that people are one of its important assets. The Group’s ability to compete effectively in its existing businesses and expand into new business areas depends on its ability to attract, motivate and retain talent. The Group will continue to invest in its employees and maintain a spirit of partnership with its employees to optimise the structure of its talent pool, so as to support its business goals and enhance its competitive advantages.

<sup>3</sup> Representing seven major changes in the rural area under the development model in responding to the Revitalising Rural Areas national strategy.

## Group Structure

The following chart presents a simplified corporate structure of the Group as at 31 December 2020:



## History and Development

The Company's predecessor, Shandong Commercial Group General Corporation (山東省商業集團總公司, the "SCGGC"), was established in 1992 with the registered capital of RMB174.35 million. In 2010, the SCGGC was renamed as Shandong Commercial Group Co., Ltd., the current name of the Company. As at 31 December 2020, the Company had registered capital of RMB1.22 billion.

Year	Milestone Events
November 1992 . . . . .	The Commerce Bureau of Shandong Province (山東省商業廳) was restructured into SCGGC with the registered capital of RMB174.35 million.
April 2003 . . . . .	SCGGC acquired Bohai Group Co., Ltd. (渤海集團有限公司), which is the predecessor of one of the Group's key subsidiaries, Inzone Group Co., Ltd.
June 2006 . . . . .	The registered capital of SCGGC increased by RMB22.11 million and RMB80 million, respectively.
October 2008 . . . . .	Shandong Silver Plaza Group Investment Co., Ltd. (山東省銀座集團投資有限公司), the predecessor of one of the Group's key subsidiaries, Lushang Group Co., Ltd., was entirely injected into SCGGC.
December 2008 . . . . .	50 per cent. equity interests in Shandong Silver Plaza Co., Ltd. (山東銀座商城股份有限公司) was transferred to SCGGC.
February 2010 . . . . .	The name of SCGGC was changed to the Company's current name, Shandong Commercial Group Co., Ltd.
December 2012 . . . . .	The Company increased its registered capital to RMB1.22 billion, with Shandong SASAC as its sole shareholder.
May 2017 . . . . .	Shandong SASAC transferred 30 per cent. equity interests in the Company to Shandong Provincial Council for Social Security Fund.
May 2018 . . . . .	Shandong Provincial Council for Social Security Fund transferred 20 per cent. equity interests in the Company to Shandong Guohui Investment Co., Ltd.
June 2019 . . . . .	Lushang Property Co., Ltd. (魯商置業股份有限公司), one of the Group's publicly-listed subsidiaries in the PRC, was renamed as Lushang Health Industry Development Co., Ltd. (魯商健康產業發展股份有限公司).

## Relationship with the Shandong Provincial Government

The Company is beneficially controlled and owned by the Shandong Provincial Government with Shandong SASAC as its registered controlling shareholder. As a leading state-owned conglomerate based in Shandong Province, the Group has extensive relationships with the Shandong Provincial Government and other entities directly or indirectly controlled by it. The Group is commissioned by the Shandong Provincial Government and other local governmental entities and agencies to participate in many public projects such as the foundation and operation of educational institutions in Shandong Province. The Group has also received various asset and capital injections, subsidies and other grants and tax incentives from the Shandong Provincial Government and other entities and enterprises controlled by it. As the registered controlling shareholder of the Company, Shandong SASAC also appoints the Company's board of directors and management team and supervises the performance of the Group and the Company's board of directors and management team in such capacity through various means.



Notwithstanding the Company's extensive relationships with the Shandong Provincial Government and other entities controlled by it, the many social and community functions performed by the Group and the financial support received by it, the Company is not part of the government. It is operationally and financially separated from the Shandong Provincial Government. Its functions and departments are separate from those of the government and do not share any premises with the Shandong Provincial Government. Even though the board of directors and management team of the Company are appointed by the Shandong SASAC, they are not government officers and do not have any employment outside of the Group. The Company has a budget and financial reporting system and assets and liabilities separate from those of the Shandong Provincial Government. The Shandong Provincial Government as the ultimate equity holder of the Company and only has limited liability to the Company in the form of its equity contribution in the Company. Neither the Shandong Provincial Government nor any other PRC governmental entity has any payment or other obligations under the Bonds or the Trust Deed and they will not provide a guarantee of any kind for the Bonds. The Bondholders do not have any recourse against the Shandong Provincial Government or any other PRC governmental entity in respect of any obligation arising out of or in connection with the Bonds or the Trust Deed. The Bonds are solely to be repaid by the Company and the obligations of the Company under the Bonds or the Trust Deed shall solely be fulfilled by the Company as an independent legal person. This position has been reinforced by the MOF Circular and the Joint Circular. Both Circulars do not, however, prohibit the PRC government from providing support (in various forms including capital injection and subsidies, but excluding injecting any kinds of public assets and land reserves as the Group's assets) to the Group in its ordinary course of business in compliance with PRC laws and regulations. The detailed description of the relationships between the Company and Shandong Provincial Government in this Offering Circular does not imply in any way any explicit or implicit credit support of the Shandong Provincial Government in respect of the Bonds, the repayment of which remains the sole responsibility of the Company.

See also the risk factors entitled "A reduction or discontinuance of government support could materially and adversely affect the Group's business, financial condition and results of operations." and "Shandong Provincial Government may exert significant influence on the Group, and could cause the Group to make decisions, take actions or invest in or operate in businesses or projects which may not be in the Group's best interests or may not maximise the Group's profits." in the section entitled "Risk Factors – Risks relating to the Group's Business" and the risk factor entitled "Neither the Shandong Provincial Government nor any other PRC governmental entity is obligated to repay any amount under the Bonds or the Trust Deed if the Issuer fails to meet its obligations thereunder." in the section entitled "Risk Factors – Risks relating to the Bonds".

## **Description of the Group's Business**

### ***Overview***

The Group is a leading state-owned conglomerate based in Shandong Province, the PRC. Founded in 1992, the Group engages primarily in retail business, pharmaceutical business and health and wellness properties business, and operates under a strong brand portfolio, consisting primarily of "INZONE (銀座)", "FREDA (福瑞達)" and "LUSHANG (魯商)". The Group also expands its footprints in cultural tourism, education, healthcare, media business, financial services and e-commerce, and several other businesses. As a Shandong SASAC-controlled entity, the Group consisted of 41 subsidiaries as at 31 December 2020, including two publicly-listed subsidiaries in the PRC, namely Inzone Group Co., Ltd. (銀座集團股份有限公司, 600858.SH) and Lushang Health Industry Development Co., Ltd. (魯商健康產業發展股份有限公司, 600223.SH). With a proven track record, the Group has received numerous awards and recognitions, including being ranked 152nd in "Top 500 Chinese Enterprises in 2017 (2017中國企業500強)" and 65th in "Top 500 Service Companies in China in 2017 (2017中國服務企業500強)", respectively, in terms of operating income by China Association of Enterprises (中國企業聯合會) and China Entrepreneur Association (中國企業家協會).

The Group has maintained a stable growth. For the years ended 31 December 2018, 2019 and 2020, total operating income from the Group's business operation was RMB37,956 million, RMB39,833 million and RMB35,802 million, respectively. As at 31 December 2018, 2019 and 2020, the total assets of the Group were RMB94,104 million, RMB103,386 million and RMB117,357 million, respectively.

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

	Year ended 31 December					
	2018		2019		2020	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions)		(RMB in millions)		(RMB in millions)	
Retail business . . . . .	27,184	71.6	27,414	68.8	18,629	52.0
Pharmaceutical business . . .	858	2.3	1,039	2.6	1,477	4.1
Health and wellness properties business . . . . .	7,963	21.0	9,250	23.2	12,139	33.9
Other businesses . . . . .	1,950	5.1	2,129	5.4	3,557	9.9
<b>Total operating income . . .</b>	<b>37,956</b>	<b>100.0</b>	<b>39,833</b>	<b>100.0</b>	<b>35,802</b>	<b>100.0</b>

## Retail Business

### Overview

Retail business is the Group's core business. The Group is a leading retail business operator in Northern China. It ranked first among all retail business operators in Shandong Province in terms of operating income by China General Chamber of Commerce (中國商業聯合會) and China National Commercial Information Centre (中華全國商業信息中心) in 2018 and ranked first among all chain store operators in Shandong Province in terms of sales volume by China Chain Store & Franchise Association (中國連鎖經營協會) in 2019. As at 31 December 2020, it operated 177 department stores, 204 convenience stores, eight homeware stores, 61 electrical appliance stores, five shopping centres and six 4S sales outlets mainly under the brands "INZONE (銀座)" and "Uni-Mart (統一銀座)". These stores are located across all 16 municipalities in Shandong Province, as well as nearby cities in Henan Province, Hebei Province and Beijing. The total GFA of stores are over 5.4 million sq.m. as at 31 December 2020.

For the years ended 31 December 2018, 2019 and 2020, operating income generated from the Group's retail business represented 71.6 per cent., 68.8 per cent. and 52.0 per cent., respectively, of the Group's total operating income for the same periods. For the years ended 31 December 2018, 2019 and 2020, profit generated from the Group's retail business represented 70.3 per cent., 65.8 per cent. and 53.4 per cent., respectively, of the Group's total profit for the same periods. The following table sets forth, for the periods indicated, selected financial data relating to the Group's retail business.

	Year ended 31 December		
	2018	2019	2020
Operating income (RMB in millions) . . . . .	27,184	27,414	18,629
Cost of sales (RMB in millions) . . . . .	21,623	21,934	14,118
Gross profit (RMB in millions) . . . . .	5,561	5,481	4,511
Gross profit margin (per cent.) . . . . .	20.46	19.99	24.22

## Retail Business Network

As at 31 December 2020, the Group operated 177 department stores, 204 convenience stores, eight homeware stores, 61 electrical appliance stores, five shopping centres and six 4S sales outlets across all 16 municipalities in Shandong Province, as well as nearby cities in Henan Province, Hebei Province and Beijing.

The following table sets forth the geographic distribution of the Group's retail outlets as at 31 December 2020:

Category	Shandong Province	Hebei Province	Henan Province	Beijing
	<i>(number of stores)</i>			
Department stores . . . . .	165	4	8	—
Convenience stores . . . . .	204	—	—	—
Homeware stores . . . . .	8	—	—	—
Electrical appliance stores . . . . .	61	—	—	—
Shopping centres . . . . .	4	—	—	—
4S sales outlets . . . . .	6	—	—	—
<b>Total . . . . .</b>	<b>448</b>	<b>4</b>	<b>8</b>	<b>1</b>

The number of each type of stores in general remained stable. The following table sets forth the number of the Group's stores as at the date as indicated below:

	As at 31 December		
	2018	2019	2020
	<i>(number of stores)</i>		
Department stores . . . . .	168	178	177
Convenience stores . . . . .	204	203	204
Homeware stores . . . . .	10	10	8
Electrical appliance stores . . . . .	37	37	61
Shopping centres . . . . .	5	5	5
4S sales outlets . . . . .	6	6	6
<b>Total . . . . .</b>	<b>430</b>	<b>439</b>	<b>461</b>

The space under operation of each type of stores increased in line with the growth of the number of stores. The following table sets forth the GFA in each type of stores as at the date as indicated below:

	As at 31 December		
	2018	2019	2020
	<i>(in thousands of sq.m.)</i>		
Department stores . . . . .	3,703.4	3,878.9	3,914.2
Convenience stores . . . . .	83.5	83.2	83.2
Homeware stores . . . . .	926.0	926.0	714.0
Electrical appliance stores . . . . .	66.2	66.2	69.3
Shopping centres . . . . .	601.0	601.0	601.0
4S sales outlets . . . . .	27.9	27.9	27.9
<b>Total . . . . .</b>	<b>5,408.0</b>	<b>5,583.2</b>	<b>5,409.6</b>

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*Note:*

GFA is calculated based on the property ownership certificate or the lease agreement, as applicable.

#### *Major Types of Retail Stores*

As at 31 December 2020, the Group operated a comprehensive store portfolio with six major types of stores, including department stores, convenience stores, homeware stores, electrical appliance stores, shopping centres and 4S sales outlets, primarily under the brands of “INZONE (銀座)” and “Uni-Mart (統一銀座)”.

#### *Department Stores*

The Group commenced its department store business in 1996 under the brand name of “INZONE (銀座)”. INZONE department stores are mostly in the form of department store and supermarket complexes. Positioned at the middle to upper-end of the retail market, INZONE department stores provide customers with a wide range of merchandise in different categories with a diverse product, price and brand mix. As at 31 December 2020, the Group operated 177 INZONE department stores with a total GFA of 3,914,200 sq.m., of which, 165 were located in Shandong Province, four in Hebei Province and eight in Henan Province, respectively.

#### *Convenience Stores*

The Group commenced its convenience store business in 2006 under the brand name of “Uni-Mart (統一銀座)”. Uni-Mart convenience stores offer a broad range of consumer products, as well as express and convenient services, such as sales of telephone IP cards, newspapers and magazines, supply of hot water, ATM machine, inflator pump, microwave heating and fast food services. Uni-Mart convenience stores occupy spaces ranging from 300 sq.m. to 2,500 sq.m. and provide customers with fast, efficient, convenient and 24-hour services at easily accessible locations and residential areas. As at 31 December 2020, the Group operated 204 convenience stores with the total GFA of 83,200 sq.m., all of which were located in Shandong Province.

#### *Homeware Stores*

The Group commenced its homeware stores business in 2003 under the brand name of “INZONE Green Home (銀座家居)”. The INZONE homeware stores are positioned at the middle to upper-end of the homeware retail market and provide a broad mix of home products and services, including building materials, furniture, home accessories and decorations. As at 31 December 2020, the Group operated eight INZONE homeware stores with the total GFA of 714,000 sq.m., all of which were located in Shandong Province, covering cities of Jinan, Dongying, Linyi, Binzhou, Qingdao, Weifang and Jining.

#### *Electrical Appliance Stores*

The Group commenced its electrical appliance stores business in 2009 under the brand name of “INZONE electrical appliance store (銀座電器)”. The INZONE electrical appliance stores provide a variety of electrical appliance products and services, including kitchen appliance, computing, TV and entertainment, mobile and communication and home appliance. As at 31 December 2020, the Group operated 61 INZONE electrical appliance stores with the total GFA of 69,300 sq.m., all of which were located in Shandong Province, covering cities of Jinan, Dongying, Binzhou, Tai’an, Jining, Zibo, Laiwu and Heze.

#### *Shopping Centres*

The Group commenced its shopping centres business in recent years. These shopping centres are typically designed as large scale complexes with retail and commercial properties, including retail

shops, office buildings, apartments, restaurants, hotels, cinemas, parking slots and other facilities. As at 31 December 2020, the Group operated five shopping centres, namely Weifang INZONE Mall (濰坊銀座商城), INZONE Mall Yuhan Store (銀座商城玉函店), INZONE Harmony Plaza (銀座和諧廣場), Beijing Harmony Plaza (北京和諧廣場) and Heze Harmony Plaza (荷澤和諧廣場), with the total GFA of 601,000 sq.m..

#### 4S Sales Outlets (汽車4S店)

The Group operates automobile franchise stores that involve new car sales, sales of automobile parts and automobile maintenance services. The Group's 4S sales outlets are positioned at the middle to high-end of the automobile retail market. As at 31 December 2020, the Group operated six 4S dealership under the brands of Audi, FAW-Volkswagen, Shanghai Volkswagen, Shanghai General Motor, Skoda and Chang'an Mazda, with the total GFA of 27,900 sq.m., all of which are located in Jinan, Shandong Province. The Group manages its 4S sales outlets with the "order-purchase-sale" business model, through which the Group is able to maintain relatively low inventory level while generating steady revenue.

The following table sets forth certain operating data of the Group's principal retail stores as at 31 December 2020:

	Retail Stores	Operating Area (in thousands of sq.m.)	Year of Commencement	Nature of the Premises
1.	Shandong INZONE Mall (山東銀座商城) . . . . .	42	1996	Self-owned
2.	Jinan INZONE Shopping Plaza (濟南銀座購物廣場) . . . . .	22.7	1999	Leased
3.	Tai'an INZONE Mall (泰安銀座商城) . . . . .	31.9	2001	Self-owned
4.	Jinan INZONE Mall (濟南銀座商城) . . . . .	13.7	2002	Leased
5.	Jinan INZONE Beiyuan Shopping Plaza (濟南銀座北園購物廣場) . . . . .	28.4	2002	Self-owned
6.	Dongying INZONE Shopping Plaza (東營銀座購物廣場) . . .	38.1	2003	Self-owned
7.	Zibo INZONE Mall (淄博銀座商城) . . . . .	31.4	2003	Self-owned
8.	Binzhou INZONE Shopping Plaza (濱州銀座購物廣場) . . . .	17.3	2003	Leased
9.	Jinan INZONE Green Home Store (濟南銀座家居) . . . . .	24.7	2003	Self-owned
10.	Linyi INZONE Mall (臨沂銀座商城) . . . . .	31.3	2005	Self-owned
11.	Rizhao INZONE Mall (日照銀座商城) . . . . .	19.0	2006	Leased
12.	Zibo INZONE Mall Zhoucun Shopping Plaza (淄博銀座商城周村購物廣場) . . . . .	19.4	2006	Self-owned
13.	Heze INZONE Mall (荷澤銀座商城) . . . . .	32.5	2006	Self-owned
14.	Xintai INZONE Mall (新泰銀座商城) . . . . .	9.3	2006	Leased
15.	Tai'an INZONE Mall Donghu Store (泰安銀座商城東湖店) . . . . .	12.5	2006	Leased
16.	Changqing INZONE Store (長清銀座店) . . . . .	20.5	2006	Leased

	Retail Stores	Operating Area <i>(in thousands of sq.m.)</i>	Year of Commencement	Nature of the Premises
17.	Jining INZONE Mall (濟甯銀座商城) . . . . .	18.6	2007	Leased
18.	Xingtai INZONE Mall (邢臺銀座商城) . . . . .	19.1	2007	Leased
19.	Jinan Huaxin Shopping Plaza (濟南華信購物廣場) . . . . .	17.4	2007	Leased
20.	Laiwu INZONE Mall (萊蕪銀座商城) . . . . .	27.5	2007	Self-owned
21.	Boshan INZONE Store (博山銀座店) . . . . .	14.1	2007	Self-owned
22.	Zhangqiu INZONE Store (章丘銀座店) . . . . .	15.1	2008	Leased
23.	Jining INZONE Shopping Plaza (濟寧銀座購物廣場) . . . . .	23.0	2008	Self-owned
24.	Laiwu INZONE Gangcheng Store (萊蕪銀座鋼城店) . . . . .	15.7	2008	Leased
25.	INZONE Yanshan Store (銀座燕山店) . . . . .	9.6	2008	Leased
26.	Tengzhou INZONE Mall (滕州銀座商城) . . . . .	20.2	2009	Self-owned
27.	Shijiazhuang Dongfang Shopping Plaza (石家莊東方購物廣場) . . . . .	55.0	2009	Self-owned
28.	Binzhou INZONE Huanghe Store (濱州銀座黃河店) . . . . .	23.6	2009	Self-owned
29.	Puyang INZONE Store (濮陽銀座店) . . . . .	18.8	2009	Leased
30.	Weifang INZONE Mall (濰坊銀座商城) . . . . .	56.6	2010	Self-owned
31.	Luoyang INZONE Mall (洛陽銀座商城) . . . . .	19.6	2010	Leased
32.	Hebi INZONE Mall (鶴壁銀座商城) . . . . .	18.0	2010	Self-owned
33.	Yantai INZONE Mall (煙臺銀座商城) . . . . .	37.8	2010	Self-owned
34.	Jinan Harmony Plaza (濟南和諧廣場) . . . . .	145.0	2011	Self-owned
35.	Anyang INZONE Mall (安陽銀座商城) . . . . .	15.5	2012	Self-owned
36.	Liaocheng INZONE Mall (聊城銀座商城) . . . . .	23.5	2012	Self-owned
37.	Linyi Harmony Plaza (臨沂和諧廣場) . . . . .	82.0	2012	Self-owned
38.	Baoding INZONE Mall (保定銀座商城) . . . . .	35.6	2013	Leased
39.	INZONE Mall Qilishan Store (銀座商城七裡山店) . . . . .	13.0	2013	Leased
40.	Zhangjiakou INZONE Mall (張家口銀座商城) . . . . .	41.0	2014	Self-owned
41.	Qingdao INZONE Mall (青島銀座商城) . . . . .	52.2	2016	Self-owned
42.	Beijing Harmony Plaza (北京和諧廣場) . . . . .	140.0	2016	Self-owned
43.	Heze Harmony Plaza (荷澤和諧廣場) . . . . .	100.0	2017	Leased
44.	Zibo Gaoqing INZONE Store (淄博高青銀座) . . . . .	20.2	2017	Leased



	Retail Stores	Operating Area	Year of Commencement	Nature of the Premises
		(in thousands of sq.m.)		
45.	Linyi INZONE People's Square Store (臨沂銀座人民廣場店) . . . . .	23.8	2017	Leased
46.	Dezhou Qihe INZONE Store (德州齊河銀座) . . . . .	18.5	2017	Leased

### ***Business Model***

The Group's retail business generates operating income from commodities direct sales and consignment sales, commission income from associate sales and rental income from store tenants. As at 31 December 2020, substantially all of the Group's operating income were generated from direct sales and associate sales.

#### ***Direct Sales***

Direct sales business model involves the purchase of commodities by the Group from the suppliers and the reselling of the commodities purchased by the Group to its customers in the retail outlets operated by the Group. Under direct sales business model, the Group manages the procurement, transportation, inventory and sales of the commodities on its own. The Group owns the title of the commodities and assumes ownership risks and generates revenue from the difference between the actual retailing price of the commodities and the corresponding procurement cost. For the year ended 31 December 2020, the Group's operating income under the direct sales business model was RMB10,604 million, accounting for approximately 56.9 per cent. of the total operating income from the Group's retail business for the same period.

Most of the Group's retail business in connection with the mass-market consumption commodities with limited price elasticity, such as gold, platinum, cosmetics, apparel and live and fresh products, are operated under direct sales business model.

Under direct sales business model, the Group adopts a systematic brand management and commodity classification system. The Group's brand management department is responsible for selecting brands, products and suppliers for the Group's retail stores, carrying out contract negotiation and entering into purchase and sales agreements with the suppliers. It evaluates and forecasts the market trend or demand of the commodities, sets out the range of commodities to be purchased and maintains a brand database through researching, assessing and reviewing the nature of the suppliers under various criteria including brand name, product quality, efficiency in delivery and credit background.

The Group's procurement department or the relevant retail stores are responsible for carrying out procurement, inspection and acceptance of the commodities upon delivery and settlement with the suppliers. Merchandise planning is carried out by the Group's procurement department after taking into account the Group's budgeted sales in a specific period, inventory, market trends and anticipated demand. Inventory check and physical inspection of the commodities purchased by the Group are carried out on a regular basis. The purchased commodities of the Group are recorded as inventory after passing the quality control.

In terms of payment, the Group typically decides whether to make down payment for the procurement of commodities depending on market conditions when entering into the purchase and sale agreement and pays up the balance of purchase price upon the delivery and acceptance of the commodities from the suppliers.

### *Associate Sales*

Associate sales business model involves the entering into sale association agreements between the Group and certain selected suppliers, providing such suppliers with designated areas and services in the Group's retail stores and permitting such suppliers to have their own sales force and/or conduct their own sales promotions to retail their branded commodities in the Group's retail stores. Under associate sales business model, the Group focuses on the layout and sales of the commodities while the suppliers are responsible for transportation, inventory and determining retail prices. Such suppliers own the title of the commodities and assume the ownership risks of the commodities. The Group typically collects a turnover commission from the suppliers under the associate sales business model, usually at a range of 17 per cent. to 25 per cent. of the total sales proceeds for the commodities sold at the Group's retail stores in a certain period. For the year ended 31 December 2020, the Group's operating income under associate sales business model was RMB6,795 million, accounted for approximately 36.5 per cent. of the total operating income of the Group's retail business for the same period.

The associate sales business model enables the Group to offer a broad range of commodities to its customers without the risks and costs of procurement and inventory management, including the risks of obsolete commodities. Most of the Group's retail business in connection with the seasonal commodities or commodities with fluctuating prices, such as apparel, knitting, shoes, bags and suitcases, are operated under associate sales business model.

Under associate sales business model, the Group's marketing department selects the suppliers for the Group's retail stores based on a variety of factors, including brand name, market positioning, sales channel and delivery time and enters into sale association agreements with the selected suppliers. The Group's retail stores actively monitor the commodity mix and the sales of the commodities and communicate with the suppliers providing guidance and recommendations relating to their sales performance, marketing and promotion strategies, commodity mix, product quality and inventory management. The Group also cooperates with the suppliers on the quality control of the commodities and providing after-sale customer services.

The Group typically collects a turnover commission on a monthly basis from the suppliers under the associate sales business model, usually at a range of 17 per cent. to 25 per cent. of the total sales proceeds for the commodities sold at the Group's retail stores in such month.

### *Consignment Sales*

Under consignment sales business model, the Group sells the commodities on behalf of the suppliers. The Group generates revenue from the difference between the actual retail prices of the consigned commodities and the prices to be collected by the relevant suppliers as agreed between such suppliers and the Group. As title to the commodities under consignment sales business model does not pass to the Group, the Group does not assume the ownership risks of the commodities. For the year ended 31 December 2020, the Group's operating income under consignment sales business model was RMB770 million, accounted for approximately 4.1 per cent. of the total operating income of the Group's retail business for the same period.

The consignment sales business model is mainly adopted by the Group for retailing low turnover rate commodities, including drinks and beverages, health products and certain special products (such as sugar-free foods).

Under consignment sales business model, the Group selects suppliers for the Group's retail stores based on the market demand and enters into consignment agreements with the selected suppliers. Such suppliers provide consignment commodities as specified in the relevant consignment agreement.

The Group generally settles the payment with the suppliers under consignment sales business model on a monthly basis.

### *Store Leasing*

Store leasing business model involves the leasing out of certain operating areas in a retail store whilst operating the rest of the operating areas by the Group at the same time. The Group generates operating income under store leasing business model by collecting rents from the lessees. For the year ended 31 December 2020, the Group's operating income under store leasing business model was RMB460 million, accounted for approximately 2.5 per cent. of the total operating income from the Group's retail business for the same period.

The Group leases or sub-leases designated areas to the operators of certain businesses that the Group believes are complementary to and form part of, the shopping experience at its retail stores. Such businesses vary for each retail store of the Group depending on consumer demands and preferences and include restaurants, entertainment facilities and so forth.

Under store leasing business model, the Group enters into lease or sub-lease agreements with the tenants and collects rents from the tenants on a regular basis as agreed in the relevant lease or sub-lease agreements.

### ***Procurement***

The Group prepares its procurement plans and undertakes its purchasing negotiations principally at the head office with certain flexibility granted to the local retail stores. The Group formulates and implements a set of brand management and product classification rules and regulations in its procurement activities. The Group's head office determines its overall merchandise planning strategies, develops the brand and commodities composition strategies, establishes and manages relationships with key suppliers and vendors, maintains a central database of brands and suppliers and issues guidelines on selecting suppliers for local retail stores. Solicitation of superior brands has been conducted on a collective basis through the Group's head office, whereas solicitation of other brands is conducted by the individual retail stores. By centralising the Group's negotiations, the Group is able to have better control over suppliers and their respective terms and conditions on the supply of commodities.

The Group maintains a close and long-term cooperation relationship with its suppliers and continues to develop new suppliers to expand its supplier base in order to secure the supply of commodities for its retail business at preferential price. As at 31 December 2020, the Group had over 20,000 suppliers.

### ***Distribution***

The Group's retail business distribution network is supported by two logistics companies and four of their specially designed distribution centres, i.e. Shandong Silver Plaza Distribution Centre (山東銀座配送中心), Qufu Silver Plaza Distribution Centre (曲阜銀座配送中心) and Weifang Distribution Centre (濰坊配送中心) which provide distribution and logistics services for "INZONE" retail chain network and Uni-Mart Logistic and Distribution Centre (統一銀座物流配送貨中心) which provides distribution services for "Uni-Mart" convenience store network. The Group's distribution centres enable it to better manage its retail business distribution network and optimise the volume of products it purchases from its suppliers, thereby streamlining logistics and reducing its operating costs. The total areas at two logistic companies' distribution centres are approximately 322,400 sq.m. and 14,800 sq.m., respectively, including warehouse, bakery and cooked food processing centre.

The Group has used information technology systems in these distribution centres to maintain efficient management and operation of its retail business distribution network. The Group's retail stores can generate and place their orders electronically through an intranet system, which enables the Group to achieve high efficiency in terms of logistics.

## Quality Control

The Group consistently reviews its suppliers to ensure that such suppliers are capable and competent to provide quality products for the Group's retail business. The Group periodically verifies whether the suppliers have obtained all necessary permits and approvals for the production and/or sale of the commodities in question. In addition, the Group also reviews the suppliers' quality control reports from time to time and conducts sampling inspection of the commodities.

## Pharmaceutical Business

### Overview

The Group's pharmaceutical business is engaged in the research and development, manufacture and sale and distribution of a broad range of pharmaceutical and healthcare products. The Group's key products include western and Chinese medicines for neck pain relief and cold treatment, medical supplies, health supplements, chemical raw materials and skincare products. Its products are sold through an extensive sales and distribution network nationwide. The Group is dedicated for years in research and development. It has a strong track record in developing products, as well as a robust research and development product pipeline. As at 31 December 2020, the Group obtained 64 approvals from the China Food and Drug Administration (國家食品藥品監督管理總局) for new drug certificate applications and registered 67 patents for new drugs in the PRC. The Group also conducts research and development on ingredients for skin care products and is one of the leading hyaluronic acid manufacturers in the world with an average annual output reaching 420.0 tonnes. The Group operates its pharmaceutical business principally through its wholly-owned subsidiary, Shandong Freda Pharmaceutical Group Co., Ltd. ("**Freda Pharmaceutical**") and the subsidiaries, research and development institutes and laboratories thereunder.

For the years ended 31 December 2018, 2019 and 2020, operating income generated from pharmaceutical business represented approximately 2.3 per cent., 2.6 per cent. and 4.1 per cent., respectively, of the Group's total operating income for the same periods. For the years ended 31 December 2018, 2019 and 2020, profit generated from the Group's pharmaceutical business represented 6.8 per cent., 7.9 per cent. and 10.3 per cent., respectively, of the Group's total profit for the same periods. The following table sets forth selected financial data relating to the Group's pharmaceutical business for the periods indicated.

	Year ended 31 December		
	2018	2019	2020
Operating income (RMB in millions) . . . . .	858	1,039	1,477
Cost of sales (RMB in millions) . . . . .	319	380	606
Gross profit (RMB in millions) . . . . .	540	659	871
Gross profit margin (per cent.) . . . . .	62.85	63.44	58.96

Over the years, the Group has enjoyed a leading position across multiple segments of the pharmaceutical industry in China. Research and development has been one of the high-priority areas of development of the Group. As at 31 December 2020, through its wholly-owned subsidiary, namely Shandong Academy of Pharmaceutical Science (山東省藥學科學院), one of the top provincial level research and development institutes in Shandong Province, the Group obtained 64 approvals from the China Food and Drug Administration (國家食品藥品監督管理總局) for new drug certificate applications and registered 67 patents for its new drugs in the PRC. Meanwhile, as an industry-leading manufacturer and distributor of pharmaceutical and healthcare products, the Group has established an extensive sales and marketing network comprising more than 30 offices located in all major cities across China.

## Product Portfolio

Many of the Group's products are marketed under its own brands which have long been widely recognised in the industry. The Group owns a number of well-known brands including "Mingren (明仁)", "Weigukang (維固康)", "Lihu (力虎)", "Rellet (頤蓮)", "Shenan (善顏)" and "Dr. Alva (瓊爾博士)". Through Freda Pharmaceutical, the Group also has investment in a sino-foreign equity joint venture, namely Shandong Bausch & Lomb Freda Pharmaceutical Co., Ltd. (山東博士倫福瑞達製藥有限公司) ("Shandong Bausch & Lomb"), one of the largest ophthalmic medicine manufacturers in China, whose principal activities include the manufacture and sale and distribution of pharmaceutical products for the medical treatment of ophthalmia and osteoarthritis. As such, the Group is licensed for the sale and distribution of a number of Shandong Bausch & Lomb's pharmaceutical products, including injection for the medical treatment of osteoarthritis under the brand of "Sofast (施沛特)". The following table sets forth a breakdown of the operating income generated from the Group's pharmaceutical business for the periods indicated:

	Year ended 31 December		
	2018	2019	2020
	<i>(in millions of RMB)</i>		
Pharmaceutical manufacturing . . . . .	277	355	498
Pharmaceutical distribution . . . . .	537	684	979
<b>Total operating income . . . . .</b>	<b>858</b>	<b>1,039</b>	<b>1,477</b>

The Group has developed diverse product portfolio. As at 31 December 2020, the Group offered 100 different types of pharmaceutical and healthcare products, of which 34 were included in the National Essential Drug List (國家基本藥物目錄) and the Shandong Provincial Health Supplement List (山東省增補藥物目錄). The following table sets forth the details of the Group's major products as at 31 December 2020:

Product Category	Major Products
Biopharmaceutical . . . . .	Eye drops for the medical treatment of ophthalmia, injection for the medical treatment of osteoarthritis
Modernised Chinese medicines . . . . .	Tablet, capsule, granules, cream, plaster for the medical treatment of Eye drops for the medical treatment of ophthalmia, injection for the medical treatment of osteoarthritis
Chemical medicines . . . . .	Tablet and capsule for the medical treatment of orthopaedics, diabetes, cerebral thrombosis, skin diseases
Health supplements . . . . .	Vitamin, herbal supplement
Medical supplies and medical devices . . . . .	Surgical abortion machine, catheter, surgical mask, drainage equipment
Food additives . . . . .	Natamycin, Nisin, Pullulan
Fertilizer synergist . . . . .	t-Polyglutamic Acid (Agricultural)
Cosmetic and skin care ingredients . . . . .	Pullulan, -Polyglutamic Acid, Hyaluronic Acid
Skincare . . . . .	A series of skincare products under the brand of Rellet (頤蓮), Shenan (善顏) and Dr. Alva (瓊爾博士)

## Procurement of Raw Materials

The Group procures a wide variety of raw materials for its pharmaceutical and healthcare products. The principal raw materials used for the Group's pharmaceutical and healthcare products include Sanchi (三七), Incised Notopterygium Rhizome and Root (羌活), Szechwan Lovage Rhizome (川芎), Weeping Forsythia Capsule (連翹), White Peony Root (白芍), Platycodon Root (桔梗), Liquorice Root (甘草), Chinese Thorowax Root (柴胡) and other Chinese herbs. In addition to these principal

raw materials, the Group also procures other miscellaneous raw materials for its pharmaceutical business, including supplemental materials and packaging materials.

Raw materials for the Group's pharmaceutical business are generally procured directly by its manufacturing subsidiaries from third party suppliers through inquiry. The Group generally enters into one-off spot contracts with its raw materials suppliers due to the nature of the Group's business operations. In accordance with the supply agreement, the purchase consideration is usually paid upon delivery, inspection and acceptance of the raw materials. The Group has established stable relations with its major suppliers, which allow the Group to obtain a steady supply of raw materials.

The Group has made great efforts to control the quality of its raw materials. The Group has established and maintained a stringent supplier evaluation system to ensure that the raw materials comply with applicable regulatory requirements and satisfy internal quality standards and technological requirements for pharmaceutical manufacturing operations. The Group requires its suppliers to provide evidence that they have obtained and maintained all the necessary certifications, permits and licenses. The Group carefully selects suppliers by assessing the quality of their products as well as their quality control systems and, before the production of pharmaceutical and healthcare products, the Group would conduct reassessment to further ensure the quality of the raw materials.

### ***Sales and Distribution***

The Group sells substantially all of its pharmaceutical and healthcare products within China through (i) direct sales by the Group's manufacturing subsidiaries to distributors, retailers and end-customers; and (ii) inter-segment sales to the Group's pharmaceutical distribution segment, such as the in-house sales and marketing team of Freda Pharmaceutical and its indirect subsidiary, namely Hainan Ruilante Pharmaceutical Co., Ltd. (海南瑞蘭特藥業有限公司), which in turn distribute the Group's pharmaceutical and healthcare products to sub-distributors, retailers and end-customers. The Group generally requires its customers to settle their payments through cash before delivery. The Group may grant its long-term customers up to one-month credit period depending on their purchase amount.

### ***Research and Development***

The Group considers its strong research strength, product development capabilities and technology innovation to be one of its key strengths. In recent years, the Group has, through cooperation with Shandong University (山東大學), Ocean University of China (中國海洋大學) and other academies, set up the Shandong Significant New Drug Development Centre (山東省重大新藥創製中心), which has been officially recognised as one of the National Comprehensive New Drug Research and Development Technology Platforms (國家綜合性新藥研究開發技術大平臺) in China. The Group also actively took part in the establishment of the National (Shandong) Innovative Pharmaceutical Development Base (國家山東創新藥物孵化基地) and National Glycoengineering Research Centre (國家糖工程技術研究中心). The Group has received a number of awards and recognitions for its proven research and development capabilities. It was recognized as "Jinan Polysaccharide Drug Research and Development Innovation Team (濟南市多糖類藥物研發創新團隊)" and "Shandong Provincial Management Enterprise Drug Research and Development Innovation Team (山東省省管企業藥物研發創新團隊)" in 2015.

As at 31 December 2020, the Group operated one provincial level research and development institute and three provincial level laboratories. As at the same date, the Group had undertaken 169 research projects, 156 of which had been completed. As at the same date, the Group obtained 64 approvals from the China Food and Drug Administration (國家食品藥品監督管理總局) for new drug certificate applications and registered 67 patents for its new drugs in the PRC. For the years ended 31 December 2018, 2019 and 2020, the Group's research and development expenses for its pharmaceutical business were RMB155 million, RMB189 million and RMB172 million, respectively, representing approximately 18.1 per cent., 18.2 per cent. and 11.6 per cent. of the Group's operating income from its pharmaceutical business for the same periods.



## Quality Control

The Group is committed to providing quality pharmaceutical products to its customers and it has promulgated and implemented a highly stringent quality control system to ensure the quality and safety of the products. In the Group's pharmaceutical products procurement and distribution operations, the Group are committed to the quality of its operations and only purchases products from certified suppliers who comply with all relevant PRC laws and regulations, inspects the products purchased from the suppliers upon arrival before acknowledging receipt and re-examines the products internally prior to the manufacturing operations. In the Group's pharmaceutical manufacturing process, the Group specifies its employee's responsibilities, ensures the quality of its medical products and operates its business in accordance with the GMP and the GSP requirements. As at the date of this Offering Circular, the Group had obtained and maintained the necessary GMP certifications for all of its production lines for pharmaceutical products and the Group's business operations are in compliance with relevant regulations and standards in all material aspects.

## Health and Wellness Properties Business

### Overview

The Group engages in health and wellness properties business primarily through its subsidiary, Shandong Lushang Property Co., Ltd. (山東省魯商置業有限公司), which has been accredited with the Property Development Enterprise Qualification Certificate (Class 2). The Group's health and wellness properties business primarily involves the development and sale of:

- Residential properties, comprising residential projects and integrated residential communities with comprehensive ancillary facilities including retail shops; and
- Commercial properties, comprising commercial apartments, offices, hotels, shopping malls and shopping zones featuring dedicated retail areas.

As at 31 December 2020, the Group had a total of 43 projects at various stages of development (including completed projects; projects under development and projects held for future development). For the years ended 31 December 2018, 2019 and 2020, operating income generated from the Group's health and wellness properties business represented 21.0 per cent., 23.2 per cent. and 33.9 per cent., respectively, of the Group's total operating income for the same periods. For the years ended 31 December 2018, 2019 and 2020, profit generated from the Group's health and wellness properties business represented 15.8 per cent., 18.1 per cent. and 22.5 per cent., respectively, of the Group's total profit for the same periods. The following table sets forth, for the periods indicated, selected financial data relating to the Group's health and wellness properties business:

	Year ended 31 December								
	2018			2019			2020		
	Residential	Commercial	Management	Residential	Commercial	Management	Residential	Commercial	Management
Operating income (RMB in millions) .	5,041	2,458	464	7,749	1,010	491	10,089	1,433	617
Cost of sales (RMB in millions) . . . . .	4,336	2,008	371	6,696	664	382	8,747	1,102	391
Gross profit (RMB in millions) . . . . .	705	450	93	705	450	93	1,342	331	225
Gross profit margin (per cent.) . . . . .	13.99	18.31	20.04	13.59	34.25	18.94	13.30	23.10	36.47

## ***Project Development***

Based on the nature of the property, the Group develops and manages its property projects by itself or through cooperation with national leading property developers such as China Resources (華潤), China Jinmao (金茂) and Vanke (萬科).

## ***Land Acquisition***

In accordance with the Regulations on the Grant of State-owned Land Use Rights by Invitation of Tender, Auction or Listing-for-sale (《招標拍賣掛牌出讓國有土地使用權規定》), promulgated on 9 May 2002 and in effect since 1 July 2002, all land planned for commercial development (such as retail, tourism, entertainment and commercial property) must be transferred in one of the following ways: public tenders, auctions or listings-for-sale on the land exchanges. The use rights of the Group's current land bank are mainly acquired by public tenders.

## ***Development and Construction***

A property developer is only permitted to commence construction of a property development upon obtaining the land use rights certificate, the construction land planning permit, the construction works planning permit and the construction works commencement permit (which will only be issued after the land use rights certificate, the construction land planning permit and the construction works planning permit are obtained). As at 31 December 2020, the Group had obtained land use rights certificates for all of its health and wellness properties projects that have been completed, are under development and are held for future development. In addition, for all of its health and wellness properties projects currently under development, the Group had obtained all relevant certificates and permits prior to the commencement of construction as required under the PRC laws and regulations.

## ***Financing***

The Group finances its projects primarily through bank loans and its internal cash flow, including proceeds from the pre-sale and sale of properties.

## ***Pre-sale***

In line with market practice, the Group typically conducts pre-sales of its properties prior to the completion of their construction. Under the Administrative Measures on the Pre-sale of Urban Commodity Housing (《城市商品房預售管理辦法》) (the “**Pre-sale Measures**”) and the PRC Urban Property Administration Law (《中華人民共和國城市房地產管理法》), the Group must comply with certain conditions to obtain the pre-sale permit (商品房預售許可證) for a particular property, including but not limited to: (a) the land premium must have been fully paid and the relevant land use rights certificates must have been obtained; (b) the construction land planning permit, construction works planning permit and the construction works commencement permit must have been obtained; (c) the capital injected into the development of a property for pre-sale must not be less than 25 per cent. of the total amount invested in the project and the progress; (d) the expected completion date and the delivery date of the construction work must have been confirmed; and (e) pre-sale permits must have been obtained from the county-level or above construction bureau or property administration authority. Local governments may impose additional conditions for the pre-sale of properties, such as requirements regarding the progress of construction of the property, which may vary in different cities. Pursuant to the Pre-sale Measures, before the completion of a pre-sold property, proceeds from pre-sales must be used only for the construction of the relevant pre-sold property.

## ***Timing of Development***

Significant time is required for the successful completion of health and wellness properties and it may take months or possibly years before pre-sales in certain properties. While the pre-sale of

properties generates positive cash flow in the period in which it is made, the Group must place a portion of such proceeds in restricted bank accounts and may only use such cash for specified purposes, and no sales revenue is recognized in respect of such property until the relevant property is delivered to the purchaser.

### **Project Description**

As at 31 December 2020, total investment of the Group's health and wellness properties projects that have been completed and are under development amounted to RMB151,755 million. The estimated total investment of the Group's health and wellness properties projects that are held for future development amounts to RMB16,600 million in the next five years.

The Group has a diversified health and wellness properties portfolio, which includes "Lushang City Square (魯商城市廣場)", "Lushang Garden Residence (魯商花園住宅)" and "Lushang Ecological Villa (魯商生態別墅)". The following table sets forth the Group's investment in its health and wellness properties projects as at 31 December 2020:

	<b>Total investment</b>
	<i>(in millions of RMB)</i>
<b>Completed and under construction</b>	
Lushang City Square (魯商城市廣場) . . . . .	21,620
Lushang Garden Residence (魯商花園住宅) . . . . .	118,968
Lushang Ecological Villa (魯商生態別墅) . . . . .	11,167
<b>Total</b> . . . . .	<b>151,755</b>
<b>Held for future development</b>	
Zibo Economic Development Zone Project (淄博經開區項目) . . . . .	2,700
Heze Dayudian Project (荷澤打魚店項目) . . . . .	3,500
Jinan Shenwu Project (濟南神武項目) . . . . .	4,800
Qingdao Lushang Digital Entertainment Harbour (青島魯商數字娛樂港) . . . . .	5,600
<b>Total</b> . . . . .	<b>16,600</b>

#### **Lushang City Square (魯商城市廣場)**

Lushang City Square is Group's property series to develop modern urban complexes that mainly consist of "INZONE" flagship stores, commercial zones, office buildings, hotels and commercial and residential apartments. As at 31 December 2020, the Group had completed five Lushang City Squares that are for sale or leasing, including Jinan Lushang Plaza (濟南魯商廣場), Tai'an Silver City Square (泰安銀座城市廣場), Jinan Inzone Crystal Plaza (濟南銀座晶都國際), Jinan Lushang Glory City (濟南魯商國奧城) and Dongying Inzone City Square (東營銀座城市廣場) and three Lushang City Squares that were under development, including Qingdao Lushang City Centre Yan'er Island (青島魯商中心燕兒島), Linyi Lushang City Centre (臨沂魯商中心) and Tai'an Lushang City Centre (泰安魯商中心).

#### **Lushang Garden Residence (魯商花園住宅)**

Lushang Garden Residence is the Group's property series to develop residential apartments with comprehensive ancillary facilities and landscapes. As at 31 December 2020, the Group had completed eight Lushang Garden Residence projects that were sold or for sale, including Qingdao Jimo Dynamic Generation (青島即墨動感世代), Qingdao Lushang Blue Shore International (青島魯商藍岸國際), Qingdao Xifu Town Project (青島惜福鎮), Linyi Lushang Phoenix Town (臨沂魯商鳳凰城), Jining Lushang South Lake Mansion (濟甯魯商南池公館), Jinan Lushang Ivy Garden (濟南魯商常春藤花園), Weifang Lushang Capital (濰坊魯商首府) and Heze Lushang Phoenix Town (荷澤魯商鳳凰城), and 20 Lushang Garden Residence projects that were under development, including without limitation

Harbin Lushang Songjiang New City (哈爾濱魯商松江新城), Heze Lushang Phoenix Town (荷澤魯商鳳凰城), Lushang Blue Shore New City (魯商•藍岸新城) and Qingdao Xifu Town Project (青島惜福鎮項目).

#### Lushang Ecological Villa (魯商生態別墅)

Lushang Ecological Villa is the Group's property series to develop high-end residence with modern ecological concept. As at 31 December 2020, the Group had completed five Lushang Ecological Villas that were sold or for sale, including Qingdao Jimo Chinese Character Eco Villa (青島即墨一山一墅), Beijing Shunyi Blue Shoreline Villa (北京順義藍岸麗舍), Chongqing Yunshan Original Scenery (重慶雲山原築), Jinan Lushang Dragon Bay Imperial Villa (濟南魯商禦龍灣) and Chongqing Yunshan Elegant Scenery (重慶雲山雅築), and two Lushang Ecological Villas that were under development, including Lushang International Community (魯商國際社區) and Linyi Spring Lake (臨沂知春湖).

The particulars of the Group's completed properties as at 31 December 2020 are set forth below:

Project Name	Location	Nature of Property	Planned GFA (in thousands of sq.m.)
<b>Lushang City Square (魯商城市廣場)</b>			
Jinan Lushang Plaza (濟南魯商廣場) . . . . .	Jinan	Commercial; Office	100.0
Tai'an Silver City Square (泰安銀座城市廣場) . . . . .	Tai'an	Residential; Commercial	120.0
Jinan Inzone Crystal Plaza (濟南銀座晶都國際) . . . . .	Jinan	Commercial; Office	150.0
Jinan Lushang Glory City (濟南魯商國奧城) . . . . .	Jinan	Commercial; Office	414.0
Dongying Silver City Square (東營銀座城市廣場) . . . . .	Dongying	Commercial	192.0
<b>Sub-total</b> . . . . .			<b>976.0</b>
<b>Lushang Garden Residence (魯商花園住宅)</b>			
Qingdao Jimo Dynamic Generation (青島即墨動感世代) . . . . .	Qingdao	Residential	180.9
Qingdao Lushang Blue Shore International (青島魯商藍岸國際) . . . . .	Qingdao	Residential	350.0
Qingdao Xifu Town Project (青島惜福鎮) . . . .	Qingdao	Residential	501.2
Linyi Lushang Phoenix Town (臨沂魯商鳳凰城) . . . . .	Linyi	Residential; Commercial	600.0
Jining Lushang South Lake Mansion (濟甯魯商南池公館) . . . . .	Jining	Residential; Commercial	431.9
Jinan Lushang Ivy Garden (濟南魯商常春藤花園) . . . . .	Jinan	Residential	1030.7
Weifang Lushang Capital (濰坊魯商首府) . . . .	Weifang	Residential	102.0
Heze Lushang Phoenix Town (荷澤魯商鳳凰城) . . . . .	Heze	Residential; Commercial	853.0
<b>Sub-total</b> . . . . .			<b>4,049.7</b>

Project Name	Location	Nature of Property	Planned GFA (in thousands of sq.m.)
<b>Lushang Ecological Villa (魯商生態別墅)</b>			
Qingdao Jimo Chinese Character Eco Villa (青島即墨一山一墅) . . . . .	Qingdao	Villa	99.0
Beijing Shunyi Blue Shoreline Villa (北京順義藍岸麗舍) . . . . .	Beijing	Villa	187.6
Chongqing Yunshan Original Scenery (重慶雲山原築) . . . . .	Chongqing	Villa	72.6
Jinan Lushang Dragon Bay Imperial Villa (濟南魯商禦龍灣) . . . . .	Jinan	Villa	161.8
Chongqing Yunshan Elegant Scenery (重慶雲山雅築) . . . . .	Chongqing	Residential	34.2
<b>Sub-total</b> . . . . .			<b>555.2</b>

The particulars of the Group's properties under development as at 31 December 2020 are set forth below:

Project Name	Location	Nature of Property	Time of Commencement	Expected Time of Completion	Planned GFA (in thousands of sq.m.)
<b>Lushang City Square (魯商城市廣場)</b>					
Qingdao Lushang City Centre Yan'er Island (青島魯商中心燕兒島) . . . . .	Qingdao	Residential; Commercial	December 2019	July 2025	656.9
Linyi Lushang City Centre (臨沂魯商中心) . . . . .	Linyi	Commercial; Office; Apartment	June 2013	June 2022	693.2
Tai'an Lushang City Centre (泰安魯商中心) . . . . .	Tai'an	Residential; Commercial	December 2015	March 2022	434.3
<b>Sub-total</b> . . . . .					<b>1,784.4</b>
<b>Lushang Garden Residence (魯商花園住宅)</b>					
Harbin Lushang Songjiang New City (哈爾濱魯商松江新城) . . .	Harbin	Residential; Commercial	May 2011	December 2023	2,960.0
Lushang Blue Shore New City (魯商·藍岸新城) . . . . .	Qingdao	Residential; Commercial	July 2014	June 2022	632.2
Linyi Joy City (臨沂金悅城) . . .	Linyi	Residential	November 2015	December 2022	689.9
Jining Canal Mansion (濟寧運河公館) . . . . .	Jining	Residential	November 2015	December 2022	730.3
Wushan Lushang Blue Shoreline Villa (午山魯商藍岸麗舍) . . .	Jinan	Residential	May 2013	December 2023	1,181.5
Qingdao Lushang Central Mansion (青島魯商中央公館) . . . . .	Qingdao	Residential	July 2018	December 2023	440.0
Yantai Lushang Central Mansion (煙臺魯商公館) . . . . .	Yantai	Residential	October 2018	December 2023	472.1
Zibo Lushang Centre (淄博魯商中心). . . . .	Zibo	Residential; Commercial	October 2018	December 2023	402.4
Qingdao Lushang Blue Shore Mansion (青島魯商藍岸公館) . .	Qingdao	Residential; Commercial	September 2017	December 2023	317.3
Heze Lushang Blue Shore Mansion (荷澤魯商藍岸公館) . .	Heze	Residential; Commercial	January 2019	December 2025	607.0

Project Name	Location	Nature of Property	Time of Commencement	Expected Time of Completion	Planned GFA (in thousands of sq.m.)
Lushang Jinmao Mansion (魯商金茂公館) . . . . .	Jinan	Residential; Commercial; Villa	July 2019	December 2023	666.9
Qingdao Blue Bay Sports Centre (青島藍灣運動中心) . . . . .	Qingdao	Residential; Commercial; Villa	August 2019	December 2024	650.0
Qingdao Lushang Health City (青島魯商健康城) . . . . .	Qingdao	Residential	October 2019	August 2023	114.4
Qingdao Lushang Blue Technology port (青島魯商藍色科技港) . . .	Qingdao	Residential; Talents Apartment	May 2022	December 2025	219.0
Linyi Yuefu (臨沂樾府) . . . . .	Linyi	Residential	September 2017	December 2023	166.6
Linyi Lushang Vanke New Metropolis (臨沂魯商萬科新都會) . . . . .	Linyi	Residential; Commercial	July 2019	December 2023	353.2
Yantai Impression of Sea View (煙台觀海印象) . . . . .	Yantai	Residential	2020	2025	614.9
Linyi Lushang Vanke City (臨沂魯商萬科城) . . . . .	Linyi	Residential; Commercial	October 2020	June 2024	331.6
Jinan Xinghan City (濟南星瀚城) .	Jinan	Residential; Commercial	May 2017	May 2024	365.0
Jinan Park Palace.Jinyue Mansion (濟南公園學府.錦悅府). . . . .	Jinan	Residential	November 2018	November 2023	100.0
<b>Sub-total</b> . . . . .					<b>12,022.1</b>
<b>Lushang Ecological Villa</b> (魯商生態別墅)					
Lushang International Community (魯商國際社區) . . . . .	Tai'an	Villa	June 2014	June 2021	272.0
Linyi Spring Lake (臨沂知春湖). .	Linyi	Residential	May 2014	December 2024	394.3
<b>Sub-total</b> . . . . .					<b>666.3</b>

## Land Bank

The Group possesses a large volume of land bank with premium locations. As at 31 December 2020, the Group had a land bank with a total site area of approximately 1,193,300 sq.m., out of which 431,700 sq.m. had been in Qingdao, 228,000 sq.m. had been in Jinan and 115,300 sq.m. had been in Harbin. The following table sets forth a summary of the Group's land bank as at 31 December 2020:

Project Name	Nature of Property	Site Area	Planned GFA (in thousands of sq.m.)
Lushang Vanke City Plot C (魯商萬科城C地塊) . . . . .	Residential; Commercial	101.5	304.9
Lushang Vanke City Plot A4 (魯商萬科城A4地塊) . . . . .	Residential; Commercial	10.6	36.0
Harbin (哈爾濱) . . . . .	Residential; Commercial	115.3	564.8
Lushang Jiahui New City (魯商嘉會新城) . .	Residential	104.3	250.2
Yantai Santan Unit 1 Plot B (煙臺三灘1號B地塊) . . . . .	Residential; Commercial	165.3	619.9



Project Name	Nature of Property	Site Area	Planned GFA (in thousands of sq.m.)
Qingdao Lushang Central Mansion (Plot A) (青島魯商中央公館(A地塊))	Residential; Commercial	12.0	20.5
Qingdao Lushang Central Mansion (Plot B) (青島魯商中央公館(B地塊))	Residential; Commercial	37.3	55.0
Qingdao Lushang Blue Shore New City (青島魯商藍岸新城)	Commercial	12.8	101.0
Qingdao Yan'er Island (Plot 1c) (青島燕兒島(1c地塊))	Commercial	74.5	242.8
Qingdao West Coast Olympic Sports Centre Project (青島西海岸奧體中心項目)	Residential; Commercial	78.2	204.2
Qingdao Blue Valley Health City Plot B (青島藍谷健康城B地塊)	Residential; Commercial	47.6	98.8
Qingdao Blue Valley Health Qilu Hospital (青島藍谷健康齊魯醫院)	Hospital	81.0	74.0
Qingdao Blue Valley Health Technology Port (青島藍谷健康科技港)	Residential; Commercial	88.3	220.8
Linyi Lushang Zhichun Lake (臨沂魯商知春湖)	Residential; Commercial	30.3	18.4
Linyi Lushang City Centre (臨沂魯商中心)	Commercial	6.2	61.0
Jinan Shenwu A-1 (濟南神武A-1)	Commercial	33.6	100.7
Jinan Shenwu B-9 (濟南神武B-9)	Residential	46.8	84.3
Jinan Hancang Lake (濟南韓倉河)	Residential; Commercial	126.6	365.3
Jinan Hancang Lake (濟南韓倉河)	Commercial	21.0	63.6
<b>Total</b>		<b>1,193.3</b>	<b>3,486.2</b>

## Other Businesses

### Overview

In addition to the primary business lines of retail, pharmaceutical and property operations, the Group also carries out other operating activities to supplement its primary operating activities through its subsidiaries, including without limitation, cultural tourism, education, healthcare, media operations and financial services and e-commerce. For the years ended 31 December 2018, 2019 and 2020, operating income generated from the Group's other activities was RMB1,950 million, RMB2,129 million and RMB3,557 million, respectively, representing 5.1 per cent., 5.4 per cent. and 9.9 per cent., respectively, of the Group's total operating income for the same periods. For the years ended 31 December 2018, 2019 and 2020, profit generated from the Group's other businesses was RMB566 million, RMB676 million and RMB1,169 million, respectively, representing 7.2 per cent., 7.9 per cent. and 13.8 per cent., respectively, of the Group's total profit for the same periods.

### Cultural Tourism Business

The Group engages in cultural tourism business through its wholly-owned subsidiary, Shandong Cultural Tourism Development Co., Ltd. (山東省文化旅遊發展集團有限公司), which was injected into the Group in November 2018 by the Shandong Provincial Government with the aim to consolidate and optimise the cultural and tourism resources, such as cultural heritage, hotels, travel agencies, resorts and art performance business, in Shandong Province. The Group's cultural tourism business primarily involves operation of hotels, scenic areas and travel agencies and cultural tourism investment. In 2019, Shandong Cultural Tourism Development Co., Ltd. was shortlisted as one of the "Leading Enterprises from the Top 10 Industrial Agglomerations in Shandong Province (山東省"十強"產業集群領軍企業)" by the Shandong Provincial Development and Reform Commission (山東省發展和改革委員會). The Group was honoured as one of the "Top 20 Tourism Groups in China (中國旅

遊集團20強)” by China Tourism Academy (中國旅遊研究院) and China Tourism Association (中國旅遊協會) in 2019.

## Hotels

As at 31 December 2020, the Group operated four luxury hotels including Sofitel Jinan Silver Plaza (濟南索菲特銀座大飯店), Taishan Hotel Beijing (北京泰山飯店), Pullman Linyi Lushang (臨沂魯商鉅爾曼大酒店) and Heze Ramada Hotel (荷澤頤庭華美達酒店). As at 31 December 2020, the Group operated more than 300 budget hotels under various brands, such as “Royal Plaza Hotels & Resorts (銀座頤庭酒店)”, “Inzone Garland Hotel (銀座佳悅酒店)”, “Lushang Spring Lake Resort (魯商知春湖溫泉酒店)”, “Jiayi Hotel (佳驛精緻酒店)”, “Went On Hotel (文度 HOTEL)”, “DUOBAAN (朵芭安酒店)”, “Junlan Hotel (雋蘭酒店)”, Jiayi Hotel (佳宜酒店) and “Grace Inn (佳驛酒店)”, covering more than 16 municipalities in Shandong Province. Types of hotel which the Group operates include boutique hotels, luxury hotels, upscale hotel, mid-tier hotel and budget hotel. The Group ranked 20th in “Top 60 Hotel Groups in China (中國飯店集團60強)” by China Tourist Hotel Association (中國旅遊飯店業協會) in 2019 in terms of business scale.

## Scenic Areas and Travel Agencies

As at 31 December 2020, the Group operated four scenic areas, including one 5A-level scenic area, namely Inzone Tianmeng Scenic Area on Yimeng Mountain (沂蒙山銀座天蒙景區), and three 4A-level scenic areas, namely Xintai Lotus Mountain (新泰蓮花山), Jinan Lingyan Temple (濟南靈岩寺) and Zhoucun Ancient City (周村古商城).

As at 31 December 2020, the Group operated one 5A-level international travel service company, providing travel services under the brand of “Inzone Travel (銀座旅遊)”, with more than 100 outlets across the country.

## Cultural Tourism Investment

The Group actively participates in the promotion of the “Revitalising Rural Areas (鄉村振興)” national strategy in Shandong Province and has entered into commercial arrangements and/or strategic co-operation agreements with a number of cities in Shandong Province, such as Tai’an, Jinan, Qingdao and Weihai, for the implementation of 18 projects as at the date of this Offering Circular under the “Revitalising Rural Areas (鄉村振興)” national strategy, covering more than 50 villages. The Group also set up a parent fund and several sub-funds to fund projects under the “Revitalising Rural Areas (鄉村振興)” national strategy which focus on developing cultural tourism and modern agriculture of rural areas in Shandong Province.

## Education Business

The Group has established several education institutions, including Shandong Institute of Commerce & Technology (山東商業職業技術學院) which is the only national demonstrative vocational colleges in Shandong Province and one of the ten Class A vocational schools in China, Qingdao Vocational and Technical College of Hotel Management (青島酒店管理職業技術學院) which is the first specialised hotel management school in China and a Class C vocational school in China, Shandong Province City Service Technician College (山東省城市服務技師學院) which is distinguished in development of Shandong cuisine, Qilu Medical University (齊魯醫藥學院), Shandong Yingzuo – Yingcai Kindergarten (山東銀座英才幼兒園), Shandong Lushang Huashi Education Technology Co., Ltd. (山東魯商華實教育科技有限公司) and Shandong Lushang College (山東魯商學院). As at 31 December 2020, over 65,000 students were enrolled to the Group’s education institutions.

## ***Healthcare***

The Group engages in healthcare business through its subsidiary, Lushang Freda Health Investment Co., Ltd., which was established in 2015 by the Group with the aim to integrate internal resources in health, pension, health care and other aspects for the development and promotion of elderly services business. The Group has set up several healthcare and eldercare centres, among which Lushang Freda International Eldercare Centre (魯商•福瑞達國際頤養中心) and Linyi Zhichun Lake (臨沂知春湖項目) have become one of the first batch modelling units in Shandong Province. In 2019, Lushang Freda Health Investment Co., Ltd. was shortlisted as one of the “Reserved Leading Enterprises from the Top 10 Industrial Agglomerations in Shandong Province (山東省“十強”產業集群入庫儲備領軍企業)” by the Shandong Provincial Development and Reform Commission (山東省發展和改革委員會).

## ***Media Business***

The Group operates omnimedia network with product pipelines of newspapers, journals and websites. Shandong Business Daily (《山東商報》), the Group’s main business platform in media, was founded in 1993 and has become a nationwide newspaper since March 2001. It has an average daily audience population of over one million, covering approximately one billion of the population in Shandong Province. The Group also acquired 70 per cent. equity of Jinan Xinsanyou Advertising Co., Ltd. (濟南新三友廣告有限公司), Jinan Urban Elite Culture Communication Co., Ltd. (濟南都市精品文化傳播有限公司) and Qingdao Urban Elite Culture Communication Co., Ltd. (青島都市精品文化傳播有限公司), respectively and jointly established Shangyou Culture Communication (Shanghai) Co., Ltd. (上優文化傳播(上海)有限公司) in 2010. In addition, the Group gradually expands its media operations through business cooperation in Elite (《精品》), Urban Elite (《都市精品》), Shandong News Network (《山東新聞網》) and other media channels.

## ***Financial services and E-commerce***

The Group has a quality finance portfolio encompassing a variety of industries including third party payment service, financial leasing, insurance brokerage, micro-credit and asset management. The Group believes this could help enhance its asset liquidity, optimise resource sharing and contributes to operational efficiency.

## ***Environment Matters***

The Group is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the governmental authorities in the PRC. The Group believes that it is in compliance in all material respects with applicable environmental laws and regulations. As at the date of this Offering Circular, the Group is not aware of any material environmental proceedings or investigations to which it is or might become a party.

## ***Insurance***

The Group maintains insurance policies, which the Group believes to be consistent with the relevant laws and industry and business practice in the PRC. The Group also purchases pension insurance, unemployment insurance and medical insurance for its employees according to the relevant PRC laws and regulations. The Group maintains insurance coverage in the types which it believes are commensurate with its risk of loss and industry practice. Consistent with what the Group believes to be customary practice in the PRC, it does not carry any business interruption insurance, product liability insurance, key-man insurance or insurance covering potential environmental damage claims. Such insurance is not mandatory under the laws and regulations of the PRC and such insurance is either unavailable in the PRC or requires substantial cost. In addition, under the terms of the Group’s agreements with suppliers and vendors, they will bear all product liability in respect of any products supplied to the Group or sold in the Group’s store.

## Employees

As at 31 December 2020, the Company had approximately 38,790 full-time employees, 6,912 of which hold bachelor's degree or above. The following table shows the number of employees by ages as at 31 December 2020:

	As at 31 December 2020	
	Number of employees	Per cent. of total
Below 30 .....	24,056	62.0
30–50 .....	13,238	34.1
Over 50 .....	1,496	3.9
<b>Total</b> .....	<b>38,790</b>	<b>100.0</b>

In accordance with the applicable regulations of local governments in regions where the Group has business operations, the Group makes contributions to the pension contribution plan, medical insurance, unemployment insurance, maternity insurance and personal injury insurance. The amount of contributions is based on the specified percentages of employees' aggregate salaries as required by relevant PRC authorities. The Group also makes contributions to an employee housing fund according to applicable PRC regulations. In addition to statutory contributions, the Group provides annual bonuses to employees. The Group enters into an employment contract with each of its employees in accordance with applicable PRC laws. Such contracts include provisions on wages, vacation, employee benefits, training programmes, health and safety, confidentiality obligations and grounds for termination.

## Intellectual Property Rights

The Company operates under the “INZONE (銀座)”, “LUSHANG (魯商)” and other trademarks in the PRC. The Company has registered the relevant logos and devices in the PRC as trademarks. The Company is the registrant of the domain names of [www.lushang.com.cn](http://www.lushang.com.cn) and [www.sdzyczs.com](http://www.sdzyczs.com). The Company has also obtained certain patents and copyrights. As at 31 December 2020, the Company had not encountered any material third-party intellectual property infringement claims.

## Competition

The retail industry in China is highly competitive. The Group faces competition from national and international operators of department stores, shopping centres, convenience stores, specialty retailers, discount stores and other retail sites and forms of retail business in the areas in which the Group currently operates and markets into which the Group intends to enter. The Group's key competitors include foreign and other local department stores and shopping centres that offer a similar range of merchandise at similar price range or have similar targeted customers as the Group does. Competition is typically based on location, shopping environment and amenities, marketing and promotional activities, customer services and pricing.

The PRC pharmaceutical industry is currently fragmented with numerous market participants, highly competitive and subject to rapid and significant change. The Group competes primarily based on its product pipeline, biotechnology platform, ability to commercialize products, brand recognition and disease awareness of the public. The Group faces potential competition from many different sources working to develop therapies targeting the same indications against which the Group develops its drug candidates. These include major pharmaceutical companies, specialty pharmaceutical and biotechnology companies and academic institutions, government agencies and research institutions. Any drug candidates that the Group successfully develops and commercialises will compete both with existing drugs and with any new drugs that may become available in the future. Meanwhile, as the China pharmaceutical market continues to grow and as the Group gradually expands its distribution reach in the PRC, the Group may face increasing competition from national, regional and local

pharmaceutical retail and distribution competitors in target customer bases, business models and product portfolios.

The property market in the PRC is highly competitive. Competition is primarily based on factors such as location, facilities and supporting infrastructure, services and pricing. The Group's existing and potential competitors include major domestic developers and, to a lesser extent, foreign developers. Many of the Group's competitors have greater financial resources, marketing capabilities and brand recognition than it does. In addition, some other local companies have extensive local knowledge and business relationships in the relevant local markets, while international companies are gaining increasing market shares in the PRC. Intensified competition between property developers may result in increased costs in order to acquire land, over-supply of properties and a slowdown in the approval process for new property developments by the relevant government authorities.

### **Legal Proceedings**

From time to time, the Group, together with its subsidiaries, may be involved in legal proceedings or other disputes in the ordinary course of its business. As at the date of this Offering Circular, the Group is not aware of any material legal proceedings, claims, disputes, penalties or liabilities currently pending or threatened against the Group that may have a material adverse impact on its business, financial condition or results of operations.

## DIRECTORS AND SENIOR MANAGEMENT

### Directors

The board of directors of the Company consists of seven directors, including one chairman and six directors. The board of directors determines major matters of the Company, and is primarily responsible for, among others, convening shareholders' meetings; reporting to the shareholders and implementing shareholders' resolutions; determining operation and investment plans, annual investment plans and investment proposals; formulating annual budget plans, profit sharing plans and deficit covering plans, plans for increase or decrease of registered capital and issuance of medium and long-term bonds; drafting plan on merges, spinoffs, changes of corporate forms, winding up and dissolution of the Company; determining internal management structure of the Company and the establishment and dissolution of subsidiaries; appointing, removing and determining the remuneration of senior management; making proposals on the amendment of the Company's articles of association; determining the management system of risk assessment, financial control and internal audit; acting on behalf of the Company as a shareholder of its investees; and other responsibilities granted by the Company's shareholders. Each of the directors is appointed for a term of three years, which is renewable upon re-election and re-appointment.

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

Name	Age	Position/Title
Mr. GAO Honglei (高洪雷) . . . . .	57	Chairman of the board of directors
Mr. LIU Shouliang (劉守亮) . . . . .	50	Director
Mr. LI Lin (李林) . . . . .	56	Director
Mr. LIU Dehua (劉德華) . . . . .	56	Director
Mr. WANG Yuanliang (王遠良) . . . . .	53	Director
Mr. LI Yuming (李玉明) . . . . .	57	External director
Ms. LI Xue (李雪) . . . . .	58	External director

**Mr. GAO Honglei (高洪雷)**, aged 57, has been the chairman of the board of directors of the Company since July 2018. Mr. Gao previously served as an officer in the Labour Bureau of Xintai County (新泰縣人事局) and the Vocational Education Office of Xintai County (新泰縣職教辦), an officer in the Enterprises Political Department of Xintai Municipal Party Committee (新泰市委企業政治部), the director of the Local Tax Bureau of Xintai Municipality (新泰市地方稅務局), a deputy director of the Tai'an Municipal Party Committee Propaganda Department (泰安市委宣傳部), the head of the Tai'an Municipal Civilization Office (泰安市文明辦), and a deputy director and subsequently the director of the Shandong Coalfield Geology Bureau (山東省煤田地質局). Mr. Gao obtained a master's degree from the Party School of the Central Committee of the Communist Party of China (中央黨校).

**Mr. LIU Shouliang (劉守亮)**, aged 50, has been a director of the Company since February 2017. Mr. Liu previously served as a research assistant in the General Office of the Shandong Provincial Party Committee (山東省委辦公廳綜合室) and successively a deputy county secretary and the secretary of the Ju County Party Committee (莒縣縣委), concurrently, a deputy magistrate, the representative magistrate and the magistrate of Ju County (莒縣). Mr. Liu obtained a doctorate degree from China University of Petroleum (中國石油大學).

**Mr. LI Lin (李林)**, aged 56, has been a director of the Company since February 2017. Mr. Li previously served as the director of Shandong Commercial Group General Corporation Kindergarten (山東省商業集團總公司幼稚園), the general manager of Huashen Trading Company (華琛貿易公司), a director of Shandong Yinzuo-Yingcai Kindergarten (山東銀座•英才幼稚園), a director and concurrently a deputy general manager of Shandong Nichirei Foods Co., Ltd. (山東日冷食品有限公司), the director of Shandong Commercial Group General Corporation Party and Mass Work Department (山東省商業集團總公司黨群工作部), the head of the General Office of the Company's Discipline Inspection Commission (紀委辦公室), a deputy secretary of the Company's Discipline



Inspection Commission, and a deputy director and successively the director of the Company's Human Resources Centre (人力資源管理中心). Mr. Li obtained a master's degree from the Party School of the Central Committee of the Communist Party of China (中央黨校).

**Mr. LIU Dehua (劉德華)**, aged 56, has been a director of the Company since August 2020. Mr. Liu previously served as an external director and the chief financial officer of Shandong Energy Group Co., Ltd. (山東能源集團有限公司), the chairman of the board of directors of Shandong Energy Group Finance Co., Ltd (山東能源集團財務有限公司) and an external director and the chief financial officer of Shandong Iron & Steel Group Co., Ltd (山東鋼鐵集團有限公司). Mr. Liu obtained a college's degree from Southwest Industrial Management School (西南工業管理學校).

**Mr. WANG Yuanliang (王遠良)**, aged 53, has been a director and the chief financial officer of the Company since August 2019. Mr. Wang previously served as a staff of the Finance Bureau of Zaozhuang City (棗莊市財政局), a senior staff of the State-owned Assets Administration Bureau of Zaozhuang City (棗莊市國有資產管理局), a director of the State-owned Assets Administration Office of Zaozhuang City (棗莊市國有資產管理辦公室), a senior director of the Property Management Division (產權管理科) of the State-owned Assets Supervision and Administration Commission of Zaozhuang City (棗莊市國資委) ("Zaozhuang SASAC"), a senior director of the Statistical Evaluation and Performance Appraisal Division (統計評價與業績考核科) of Zaozhuang SASAC, a researcher, director and deputy head of the Finance Supervision Office (財務監督處) of Zaozhuang SASAC, and the chief financial officer and an external director of Shandong Lu Grain Group Co., Ltd. (山東魯糧集團有限公司). Mr. Wang is a senior accountant and a tax accountant who obtained a bachelor's degree from Shandong University of Finance and Economics (山東經濟學院).

**Mr. LI Yuming (李玉明)**, aged 57, has been an external director of the Company since March 2017. He previously served as a manager, a director and a deputy chief accountant of Shandong Tianhengxin Accounting Firm (山東天恆信會計師事務所), a deputy general manager and the chief financial officer of Shandong Sanlong Intelligence Technology Co., Ltd. (山東三龍智能技術有限公司) and the chairman of the board of directors of Shandong Shunshui Information Technology Co., Ltd. (山東舜水信息科技有限公可). Mr. Li is a senior accountant who obtained a master's degree from Shandong University of Finance and Economics (山東經濟學院).

**Ms. LI Xue (李雪)**, aged 58, has been an external director of the Company since December 2019. She previously served as a teaching staff of Zibo Radio Factory (淄博無線電廠), a staff and senior staff of the Commission for Restructuring the Economic System of Zibo City (淄博市經濟體制改革委員會), a deputy director of the Zibo City Finance Office (淄博市金融工作辦公室) and a director and the general manager of the Qilu Stock Depository Centre (齊魯股權託管交易中心). Ms. Li obtained a bachelor's degree from Shandong Province Institute of Finance and Commerce Management (山東省經濟管理幹部學院) (currently known as Shandong Academy of Governance (山東行政學院)).

## Senior Management

The Group's senior management is appointed by and reporting to the board of directors. The following table sets forth the Company's senior management as of the date of this Offering Circular:

Name	Age	Position/Title
Mr. GUO Xuncheng (郭訓成) . . . . .	57	General manager
Mr. ZHAO Xiliang (趙西亮) . . . . .	58	Deputy general manager
Mr. ZHANG Jianjun (張建軍) . . . . .	57	Deputy general manager
Mr. ZHANG Zhiqiang (張志強) . . . . .	56	Deputy general manager
Mr. WANG Yuanliang (王遠良) . . . . .	53	Chief financial officer

**Mr. GUO Xuncheng (郭訓成)**, aged 57, has been the general manager of the Company since June 2020. Mr. Guo previously served as a deputy director of the General Division of the Shandong Planning Commission (山東省計劃委員會綜合處), the director of the National Economic General Division (國民經濟綜合處), the Regional Economic Division (地區經濟處) and the Policy and

Regulation Division (政策法規處) of the Shandong Development and Reform Commission (山東省發改委), the secretary of the Party Committee of Shandong Academy of Macroeconomic Research (山東省宏觀經濟研究院), the head and the secretary of the Party Group of Shandong Provincial Bureau of Statistics (山東省統計局), and a deputy director of the Office of Shandong Comprehensive Reform Leading Group (山東省全面深化改革領導小組辦公室). Mr. Guo obtained a master's degree from Chinese Academy of Agricultural Sciences (中國農業科學院).

**Mr. ZHAO Xiliang (趙西亮)**, aged 58, has been a deputy general manager of the Company since February 2017. Mr. Zhao previously served as the head of the General Office of Shandong Commercial Group General Corporation (山東省商業集團總公司) and the general manager of Shandong World Trade Centre (山東世界貿易中心). Mr. Zhao is a senior economist who obtained an Executive Master of Business Administration degree from Shandong Police College (山東警察學院), formerly known as Shandong Academy of Finance and Management Cadre (山東經濟管理幹部學院).

**Mr. ZHANG Jianjun (張建軍)**, aged 57, has been a deputy general manager of the Company since February 2017. Mr. Zhang previously served as a deputy chief of the Finance and Accounting Division (財務會計處), the director of the Finance Department (財務部) of Shandong Commercial Group General Corporation (山東省商業集團總公司), the general manager, the chief accountant and the chairman of the board of directors of Shandong Silver Plaza Co., Ltd. (山東銀座商城股份有限公司), and the deputy chief accountant of the Company. Mr. Zhang is a senior accountant who obtained a master's degree from the Party School of the Shandong Provincial Committee of the Communist Party of China (山東省委黨校).

**Mr. ZHANG Zhiqiang (張志強)**, aged 56, has been a deputy general manager of the Company since February 2017. Mr. Zhang previously served as the chief accountant of Shandong Commercial Real Estate Development Company (山東省商業房地產開發公司), the chief financial officer of Shandong Silver Plaza Jiuxin Real Estate Development Co., Ltd. (山東銀座久信房地產開發有限公司), the director of the Funding Department (資金部) and a deputy director of the General Finance Department (財務本部) of Shandong World Trade Centre (山東世界貿易中心), the director of the Fund Management Department (資金管理部), a deputy director of the Finance Management Centre (財務管理中心), the director of the Finance Management Department (財務管理部) and a deputy chief accountant of the Company and the general manager of the Shandong Commercial Group Finance Co., Ltd. (山東省商業集團財務有限公司). Mr. Zhang is a senior accountant who obtained a master's degree from Shandong University (山東大學).

**Mr. WANG Yuanliang (王遠良)**, aged 53, has been the chief financial officer of the Company since August 2019. See “– Directors”.

## Corporate Governance

The Company has established corporate governance structure, consisting of six departments at the headquarter level (namely the General Manager's Office, the Strategic Management Centre, the Investment Management Centre, the Finance Management Centre, the Human Resources Management Centre, and the Risk Management and Internal Control Centre). The primary duties of these six departments are set forth as follows:

- General Manager's Office is primarily responsible for daily operations and administrative matters, coordinating between different departments of the Group and liaising with its subsidiaries, managing the Group's comprehensive matters, and is in charge of public relations matters.
- Strategic Management Centre is primarily responsible for establishing, supervising and implementing the Group's strategies and annual operation plans, establishing and improving the Group's assessment system, and reviewing, researching and analysing the internal and external environment relating to the Group's operation and management.

- Investment Management Centre is primarily responsible for managing the Group's investment portfolio, establishing the Group's investment management system, evaluating the proposed investment projects, preparing and improving the Group's investment and capital operation plans, and supervising, monitoring and evaluating implementation of investment projects.
- Finance Management Centre is primarily responsible for establishing and improving the Group's finance management system and state-owned assets management system, drafting the Group's annual finance plans and goals, annual budget plans, and evaluating, monitoring, adjusting and improving the finance operations of the Group.
- Human Resources Management Centre is primarily responsible for establishing and promoting the Group's performance assessment and remuneration system, establishing the Group's human resources policies, drafting, promoting, monitoring and optimising the human resources plans, internal training plans and the Party and mass working plans, and implementing and developing the culture of the Group.
- Risk Management and Internal Control Centre is primarily responsible for establishing and implementing, through the Group's internal and external audit and legal resources, the Group's risk management and legal compliance system, drafting the Group's auditing and legal working plans, and ensuring the implementation, monitor, adjustment and optimisation of the relevant matters.

## PRC REGULATIONS

*This section is a high-level overview of the PRC legal system and a summary of the principal PRC laws and regulations relevant to the issue of the Bonds by the Issuer. As this is a summary, it does not contain a detailed analysis of the PRC laws and regulations.*

### Main Regulatory Authorities and Contents of Supervision

The Ministry of Commerce of the People's Republic of China (the “**MOFCOM**”) and competent local departments of MOFCOM at various levels are responsible for advancing the structural adjustment of the circulation industry, guiding the reform of circulation enterprises, the development of commercial service industry and community commerce, proposing policy recommendations to promote the development of small and medium-sized commercial enterprises, and promoting the development of modern circulation modes such as circulation standardization and chain operations, commercial franchising, logistics distribution, e-commerce.

China's building and construction industry implements a regulatory system with the combination of comprehensive supervision and professional supervision. Government supervision over the building and construction industry mainly includes three aspects: the management on the competency and qualification of market players, the whole process management on the construction projects, and the management on the economic and technical standards of construction projects. The main regulatory authorities include:

- Ministry of Housing and Urban-Rural Development of the PRC (the “**MOHURD**”) (formerly Ministry of Construction of the PRC, the “**MOC**”) and the competent local departments of MOHURD at various levels are responsible for the comprehensive supervision over the construction industry as well as the real estate development qualifications. Such management mainly includes: management on the competency and qualification of market players, approval and verification of the qualifications of various construction enterprises for access to market, examination and approval of occupational qualifications of individuals in the construction industry, supervision over and management on construction projects, and establishment of industrial standards.
- Ministry of Transport of the PRC (the “**MOT**”) and the competent local departments of MOT at various levels are responsible for the construction projects of ports and highways nationwide.
- NDRC and the local development and reform commissions at various levels are responsible for the investment planning, examination and approval of city infrastructure construction projects.
- Ministry of Ecology and Environment of the PRC (former State Environmental Protection Administration, the “**SEPA**”) and the competent local departments of environmental protection at various levels are responsible for the environmental protection management of construction projects.

### Major Laws and Regulations

#### *Regulation on Fiscal Debts of Local Governments*

In accordance with Guidance on Further Strengthening Adjustment of Credit Structure to Promote Fast and Smooth Development of National Economy (中國人民銀行、中國銀行業監督管理委員會關於進一步加強信貸結構調整促進國民經濟平穩較快發展的指導意見) issued jointly by the PBOC and CBRC in March 2009, local governments are encouraged to establish financing platforms to issue financing instruments such as enterprise bonds and medium-term notes. In order to strengthen the management of financing platforms and effectively prevent fiscal financial risks, Circular 19 and Circular 2881 were separately promulgated in June 2010 and November 2010, respectively. In accordance with Circular 19, all levels of local governments shall clear up the debts of their

respective financing platform. In accordance with Circular 2881, indebtedness of local governments will impact financing platform's issuance of enterprise bonds.

On 21 September 2014, Circular 43 was promulgated by the State Council. Circular 43 aims at regulating financing system of local government and the three channels are presented. In accordance with Circular 43, financing platforms shall no longer serve the fiscal financing functions nor incur new government debts. Public interest projects may be funded by the government through issuing government bonds, since the Budget Law of the PRC (the “**Budget Law**”), which took effect on 29 December 2018, empowers local governments to issue government bonds, and public interest projects with income generated, such as city infrastructure construction, may be operated independently by social investors or jointly by the government and social investors through the establishment of special purpose companies. Social investors or such special purpose companies shall invest in accordance with market-oriented principles and may be funded by, among other market-oriented approaches, bank loans, enterprise bonds, project revenue bonds and asset-backed securitisation. Social investors or the special purpose companies shall bear the obligation to pay off such debts and the government shall not be liable for any of the social investors' or special purpose companies' debts. Circular 43 also sets forth the general principles of dealing with existing debts of financing platforms. Based on the auditing results of such debts run by the local governments, the existing debts that should be repaid by the local governments shall be identified, reported to State Council for approval, and then included in the budget plan of local governments.

On 11 May 2015, Opinion on the Proper Solution of the Follow-up Financing Issues for Projects under Construction of Financing Platform of Local Governments issued jointly by the Ministry of Finance of the PRC, the PBOC and the CBRC (財政部、人民銀行、銀監會關於妥善解決地方政府融資平台公司在建項目後續融資問題意見) (“**Circular 40**”) was promulgated by the General Office of the State Council of the PRC. In accordance with Circular 40, local governments at all levels and banking financial institutions shall properly deal with follow-up financing issues for projects under construction of financing platform companies. Projects under construction refer to projects that have started construction upon the completion of examination, approval or filing procedures in accordance with relevant regulations manuscript by competent investment authorities before the date when the Circular 43 was promulgated.

The key tasks of local governments and banking financial institutions are as followings:

- *Support stock financing needs for projects under construction.* Local governments at all levels and banking financial institutions shall ensure the orderly development of projects under construction. For the loans to the projects under construction of financing platform companies, if the loan contracts with legal effect have been signed before 31 December 2014 and the loans have been granted but the contracts have not yet expired, banking financial institutions shall, under the premise of fully controlling risks and implementing credit conditions, continue to grant loans as agreed in the contracts, and shall not blindly call in loans in advance, delay or suspend the granting of loans.
- *Regulate increment financing for projects under construction.* Local governments at all levels shall pay close attention to the increment financing needs which are expected to be given fiscal support for the projects under construction of the financing platform companies, and shall, under the premise of compliance with laws and regulations and standard administration, make overall arrangements for various kinds of capitals such as fiscal capital and social capital and ensure the continuation and completion of projects under construction. For the projects under construction of financing platform companies for which the loan amount in the contracts that have been signed fails to meet the construction needs, if it is suitable for them to adopt government and social capital cooperation mode, they shall prioritise such mode to make up the needs. And if they are in compliance with the relevant state provisions without any other funding sources for construction, but temporarily the government and social capital cooperation



mode is not suitable, the increment financing needs shall be incorporated into government budget management and solved through issuing government bonds by local governments as required by laws and relevant regulations.

- *Administer in an effective and proper manner follow-up financing for projects under construction.* Banking financial institutions shall carefully check the destinations of the loans, and focus on supporting the projects under construction of financing platform companies in respects such as farmland water conservancy facilities, affordable housing projects and urban railway systems.
- *Improve supporting measures.* Under the premise of ensuring fiscal expenditure needs, in the regions where there are corresponding amount of government bonds issuance and where the treasury balances exceed the treasury payment for one and a half months, the local financial departments are allowed to, within the limit of the amount of government bonds issuance, make more efforts to effectively use the stock of fiscal funds in the previous years and use the surplus amount of the treasury for capital flow before government bond issuance, so as to address the time difference between the financing for projects under construction and government bonds issuance.

### ***Regulation on the Issuance of Foreign Bonds***

Pursuant to the NDRC Circular, which was promulgated by the NDRC and became effective on 14 September 2015, where domestic enterprises, overseas enterprises controlled by them or their overseas branches issue foreign debts, which are debt instruments of no less than one year of tenor that are denominated in domestic currency or foreign currency with the capital repaid and interest paid as agreed, including bonds issued overseas and long and medium-term inter-national commercial loans, the enterprises shall apply to the NDRC for dealing with the formalities of record-filing and registration before issuance. The NDRC shall decide to accept it or not within five working days upon the receipt of the application and provide the Record-filing and Registration Certification of Issuance of Foreign Debts by Enterprises within seven working days after acceptance. The enterprises shall submit the issuance information to the NDRC within 10 working days after the end of issuance each time.

Pursuant to the Notice of the General Office of the NDRC on the Requirements for Local State-owned Enterprises to Apply for Record and Registration of Foreign Debt Issuance (國家發展改革委辦公廳關於對地方國有企業發行外債申請備案登記有關要求的通知), which was promulgated by the NDRC and became effective on 6 June 2019, all companies (including local state-owned enterprise) applying for Record and Registration of Foreign Debt Issuance shall submit a commitment letter stating the authenticity of application materials signed by the main decision makers of the company to the NDRC, the NDRC will record irregularities of the companies that makes false commitment in the National Credit Information Platform.

### ***Bidding and Tendering Management***

Bidding and tendering of various construction projects have been provided in the Bidding and Tendering Law of the People's Republic of China (中華人民共和國招標投標法) promulgated by SCNPC on 27 December 2017 which became effective on 28 December 2017, Regulation on the Implementation of the Bidding and Tendering Law of the People's Republic of China (中華人民共和國招標投標法實施條例) promulgated by State Council on 2 March 2019 which became effective on the same date, Measures for the Construction Bidding and Tendering of Construction Projects (工程建設項目施工招標投標辦法) jointly promulgated by NDRC, MOC, MOR, MOT, Ministry of Information Industry of the People's Republic of China, Ministry of Water Resources of the People's Republic of China, and Civil Aviation Administration of China on 8 March 2003 which became effective on 1 May 2003 and as amended on 11 March 2013, which amendment became effective on 1 May 2013, Administrative Measures for the Bidding and Tendering of Design of Construction Projects (建築工程設計招標投標管理辦法) issued by MOHURD on 24 January 2017 and became



effective on 1 May 2017, Rules for Projects Subject to Bidding (必須招標的工程項目規定) issued by NDRC on 27 March 2018 and became effective on 1 June 2018, Administrative Measures for the Bidding and Tendering of Housing Construction and Municipal Infrastructure Work (房屋建築和市政基礎設施工程施工招標投標管理辦法) issued by MOHURD on 28 September 2018 and became effective on the same date, and Administrative Measures for the Bidding and Tendering of Highway Engineering Construction (公路工程建設項目招標投標管理辦法) promulgated by MOT on 8 December 2015 which became effective on 1 February 2016.

In accordance with the Bidding and Tendering Law of the People's Republic of China, certain types of projects shall go through bidding processes during phases, including project survey, design, construction, supervision and procurement of the essential equipment and materials relating to the project construction. Such projects include the projects related to social public interests and public security, including large infrastructure and utilities; projects invested by using state-owned fund or financed by the government in whole or in part; and projects using loans or aid funds of international organisations or foreign government.

The process of bidding and tendering consists of five stages including bid invitation, tendering, bid opening, bid evaluation and bid award. The principle of openness, fairness and equal competition shall be followed in the bidding and tendering for construction project contracting, and the contractor shall be chosen after evaluation. After the contractor is determined, the tenderer shall issue the notification to the successful bidder. The notification is legally binding on both the tenderer and the bid winner.

In accordance with the Bidding and Tendering Law of the People's Republic of China and Measures for the Construction Bidding and Tendering of Construction Projects, if any project that shall undergo bidding as required by law fails to go through the bidding process, or the items subject to bidding are broken up into pieces or the bidding requirement is otherwise evaded, the relevant administrative supervision department shall order rectification within a specified period, and may impose a fine of 0.5 per cent. up to 1 per cent. of the contract amount of the project. For projects using the state-owned funds in whole or in part, the project approval authority may suspend the implementation of the project or suspend the fund appropriation, and impose punishment on the person direct in charge of the entity or other person directly liable. Further, in accordance with the provisions of the Interpretations of the Supreme People's Court on Issues of Law Application during the Trial of Construction Contracts for Building Projects (I) (最高人民法院關於審理建設工程施工合同糾紛案件適用法律問題的解釋 (一)) issued by the Supreme People's Court on 29 December 2020 and became effective on 1 January 2021, if any project that is required to undergo a bidding process fails to go through the bidding process or the bid award is invalid, the construction contract for building projects shall become invalid.

### ***Quality Management***

Laws and regulations on project quality mainly include Construction Law of the People's Republic of China, Regulation on Quality Management of Construction Projects (建設工程質量管理條例) issued by the State Council on 23 April 2019 and became effective on the same date, Administrative Measures for Quality Management of Construction Project Survey (建設工程勘察質量管理辦法) amended by MOHURD on 1 April 2021 and became effective on the same date, Measures for the Administration of Quality Warranty Funds of Construction Projects (建設工程質量保證金管理辦法) issued jointly by MOHURD and MOF on 20 June 2017 and became effective on 1 July 2017, Administrative Measures for Completion Acceptance Record of Building Construction and Municipal Infrastructure Projects (房屋建築和市政基礎設施工程竣工驗收備案管理辦法) issued by MOHURD on 19 October 2009 and became effective on the same date, Measures for Quality Warranty of Building Construction Projects (房屋建築工程質量保修辦法) issued by MOC on 30 June 2000 and became effective on the same date, Administrative Rules for Construction of Port Works (港口工程建設管理規定) promulgated by MOT on 28 November 2019 which became effective on the same date and Measures for Completion (Delivery) Acceptance of Highway Works (公路工程竣(交)工驗收辦法)

promulgated by MOT on 15 March 2004 and became effective on 1 October 2004, and its Implement which is promulgated on 1 May 2010.

According to the Regulation on Quality Management of Construction Projects, all the building, surveying, designing, construction and supervision units shall be responsible for the quality of the construction projects. The competent administrative department of construction at or above county level is the competent authority for quality supervision and management of construction projects.

### ***Environmental Protection Management***

Major laws and regulations on environmental protection during the project construction process include the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) amended by SCNPC on 24 April 2014 which became effective on 1 January 2015, Law on Environmental Impact Assessment of the People's Republic of China (中華人民共和國環境影響評價法) promulgated by SCNPC on 29 December 2018 which became effective on the same date, Administrative Regulations on Environmental Protection of Construction Projects (建設項目環境保護管理條例) issued by State Council on 16 July 2017 and became effective on 1 October 2017, and Interim Measures for Environmental Protection Acceptance of Construction Projects upon Completion (建設項目竣工環境保護驗收暫行辦法) promulgated by SEPA on 20 November 2017 which became effective on the same date.

In accordance with the provisions of the Administrative Regulations on Environmental Protection of Construction Projects and Administrative Measures for Environmental Protection Acceptance of Construction Projects upon Completion, the PRC Government implements the system of environmental impact assessment on construction projects. After the completion of a construction project, the competent administrative department of environmental protection will undergo environmental protection acceptance process and assess whether the construction project has met the requirements for environmental protection.

### ***Environmental Protection***

The Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), promulgated on 26 December 1989 by the Standing Committee of the National People's Congress, which became effective on 26 December 1989, as amended on 24 April 2014 which became effective on 1 January 2015, establishes the legal framework for environmental protection in the PRC. The environmental protection department of the State Council supervises environmental protection work in the PRC, and establishes national standards for the discharge of pollutants. Each of the local environmental protection bureaus is responsible for the environmental protection work within their respective jurisdictions.

### ***Air Pollution***

The Air Pollution Prevention Law of the People's Republic of China (中華人民共和國大氣污染防治法), promulgated on 26 October 2018 by the Standing Committee of the National People's Congress, which became effective on the same date, establishes the legal framework for air pollution prevention in the PRC. The ecology and environment department of the State Council or local provincial governments formulates national air quality standards. Each of the local ecology and environment bureaus may impose penalties for violation, including suspending operations, within each of their respective jurisdictions.

### ***Water Pollution***

The Water Pollution Prevention Law of the People's Republic of China (中華人民共和國水污染防治法), promulgated on 11 May 1984 by the Standing Committee of the National People's Congress, which became effective on 1 November 1984, and amended on 27 June 2017 which became effective on 1 January 2018, establishes the legal framework for water pollution prevention in the PRC. The

environmental protection department of the State Council formulates national waste discharge standards. Each of the local provincial governments is authorised to regulate water pollution within each of their respective jurisdictions by formulating more specific local standards, and each of the local environmental protection bureaus may impose penalties for violation, including suspending operations, within each of their respective jurisdictions.

### *Noise Pollution*

The Noise Pollution Prevention Law of the People's Republic of China (中華人民共和國環境噪聲污染防治法), promulgated by the Standing Committee of the National People's Congress on 29 December 2018, which became effective on the same date, establishes the framework for noise pollution prevention in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, decoration or expansion project which might cause environmental noise pollution, shall prepare and submit an environmental impact report to the environmental protection authority for approval. Facilities for prevention and control of environmental noise pollution shall be designed and approved by the environmental protection authority prior to the commencement of the project, and be built and put into use simultaneously with the project works. Facilities for prevention and control of environmental noise pollution may not be dismantled or suspended without the approval of the environmental protection authority.

### *Construction Projects*

The Environmental Impact Appraisal Law of the People's Republic of China (中華人民共和國環境影響評價法), promulgated by the Standing Committee of the National People's Congress on 29 December 2018, which became effective on the same date, the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例), promulgated by the State Council on 16 July 2017, which became effective on 1 October 2017, and the Interim Measures for Environmental Protection Acceptance of Construction Projects upon Completion (建設項目竣工環境保護驗收暫行辦法) promulgated by SEPA on 20 November 2017 which became effective on the same date, require enterprises planning construction projects to engage qualified professionals to provide assessment reports on the environmental impact of such projects. The assessment report shall be filed with and approved by the relevant environmental protection bureau, prior to the commencement of any construction work. The construction project shall not commence operation, unless inspected and approved by the relevant environmental protection bureau.

## ***Labour***

### *Employment Contracts*

The Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法), promulgated by the Standing Committee of the National People's Congress on 29 June 2007, which became effective on 1 January 2008 and was amended on 28 December 2012 and became effective on 1 July 2013, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employee contract. The Labour Contract Law stipulates that employee contracts shall be in writing and signed. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees. Pursuant to the Labour Contract Law, employment contracts lawfully concluded prior to the implementation of the Labour Contract Law and continuing as at the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the Labour Contract Law, but no written employment contract was concluded, a contract shall be concluded within one month after its implementation.

Under applicable PRC laws, regulations and rules, including the Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法), promulgated by the Standing Committee of the National People's Congress on 29 December 2018, which became effective on the same date, the Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費征繳暫行條例), promulgated by the State Council on 22 January 1999, which became effective on 22 January 1999 and amended on 24 March 2019, and Administrative Regulations on the Housing Provident Fund (住房公積金管理條例), promulgated by the State Council on 3 April 1999, which became effective on 3 April 1999 and as amended on 24 March 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to pay the out-standing amount within a stipulated time period.

## **Regulations Regarding Overseas Investment, Financing and Acquisition Activities**

### ***NDRC Supervision***

According to the Administrative Measures for Overseas Investment by Enterprises (企業境外投資管理辦法) promulgated by the NDRC on 26 December 2017, which became effective on the 1 March 2018, the procedure of approval and filing shall be respectively applied to different overseas investment projects. Specifically, if the project is related to sensitive countries, regions or industries, regardless of the investment amount, the projects shall be subject to the approval of NDRC.

Specifically, non-sensitive overseas investment projects carried out by enterprises under central management, or those carried out by local enterprises in which the amount of Chinese investment reaches or exceeds U.S.\$300 million shall be subject to the filing with NDRC. Those carried out by local enterprises in which the amount of Chinese investment is below U.S.\$300 million shall be subject to the filing with competent development and reform authorities of the provincial government.

Investments in Hong Kong, Macao Special Administrative Region or Taiwan made by investors directly or through enterprises under their control, and overseas investments made by investors through the enterprises that are in Hong Kong, Macao Special Administrative Region or Taiwan and under their control shall be governed by the Administrative Measures for Overseas Investment by Enterprises.

According to the NDRC Circular, which was issued by the NDRC on 14 September 2015 and came into effect on the same day, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue bonds outside of the PRC with a maturity of more than one year, such enterprise must in advance of issuing such bonds, file certain prescribed documents with the NDRC and procure a registration certificate from the NDRC in respect of such issue.

The NDRC Circular relates to the matters as listed below:

- remove the quota review and approval system for the issuance of foreign debts by enterprises, reform and innovate the ways that foreign debts are managed, and implement the administration of record-filing and the registration system. Realise the supervision and administration of the size of foreign debts borrowed on a macro level with the record-filing, registration, and information reporting of the issuance of foreign debts by enterprises;
- before the issuance of foreign debts, enterprises shall first apply to the NDRC for the handling of the record-filing and registration procedures and shall report the information on the issuance to NDRC within 10 working days of completion of each issuance;

- record-filing and registration materials to be submitted by an enterprise for the issuance of foreign debts shall include: application report for the issuance of foreign debts and issuance plan, including the currency, size, interest rate, and maturity of foreign debts, the purpose of the funds raised, back flow of funds, etc. The applicant shall be responsible for the authenticity, legality, and completeness of the application materials and information;
- the NDRC shall decide whether to accept the application for record-filing and registration within 5 working days of receiving it and shall issue a Certificate for Record-filing and Registration of the Issuance of Foreign Debts by Enterprises within seven working days of accepting the application and within the limit of the total size of foreign debts;
- the issuer of foreign debts shall handle the procedures related to the outflow and inflow of foreign debt funds with the Certificate for Record-filing and Registration according to the regulations. When the limit of the total size of foreign debts is exceeded, the NDRC shall make a public announcement and no longer accept applications for record-filing and registration; and
- if there is a major difference between the actual situation of the foreign debts issued by the enterprises and the situation indicated in the record-filing and registration, an explanation shall be given when reporting relevant information. The NDRC shall enter the poor credit record of an enterprise which maliciously and falsely reports the size of its foreign debts for record-filing and registration into the national credit information platform.

### MOFCOM Supervision

MOFCOM issued the new version of the Overseas Investment Administration Rules (境外投資管理辦法) on 6 September 2014, effective from 6 October 2014 (the “**New Overseas Investment Rules**”). Under the New Overseas Investment Rules, a domestic enterprise intending to carry out any overseas investment shall report to the competent department of commerce for verification or filing and the competent department of commerce shall, with regard to an enterprise so verified or filed, issue thereto an Enterprise Overseas Investment Certificate (企業境外投資證書). If two or more enterprises make joint investment to establish an overseas enterprise, the larger (or largest) shareholder shall be responsible for the verification or filing procedure after obtaining written consent of other investing parties.

An enterprise that intends to invest in a sensitive country or region or a sensitive industry shall apply for the verification by MOFCOM. “Sensitive countries and regions” refer to those countries without a diplomatic relationship with the PRC, or subject to the UNSC sanctions or otherwise under the list of verified countries and regions published by MOFCOM from time to time. “Sensitive industries” refer to those industries involving the products and technologies which are restricted from being exported, or affecting the interests of more than one country (or region). In accordance with the New Overseas Investment Rules, a central enterprise shall apply to MOFCOM for verification and MOFCOM shall, within 20 working days after accepting such application, decide whether or not the verification is granted. For a local enterprise, it shall apply through the provincial department of commerce to MOFCOM for such verification. The provincial department of commerce shall give a preliminary opinion within 15 working days after accepting such local enterprise’s application, and submit all application documents to MOFCOM. MOFCOM shall decide whether or not to grant the verification within 15 working days of receipt of such preliminary opinion from the provincial department of commerce. Upon verification, the Enterprise Overseas Investment Certificate shall be issued to the investing enterprise by MOFCOM.

All overseas investments other than those subject to MOFCOM verification as described above are subject to a filing procedure. The investing enterprise shall complete the filing form through the Overseas Investment Management System, an online system maintained by MOFCOM, print out a copy of such filing form for stamping with the company chop, and then submit such stamped filing form together with a copy of its business licence for filing at MOFCOM (for a central enterprise (中央企業)) or the provincial department of commerce (for a local enterprise) respectively.



MOFCOM or the provincial department of commerce shall accept the filing and issue the Enterprise Overseas Investment Certificate within three working days upon receipt of such filing form.

The investing enterprise must carry out the investment within two years of the date of the relevant Enterprise Overseas Investment Certificate, otherwise such certificate will automatically become invalid and a new filing or verification application has to be made by the investing enterprise. In addition, if any item specified in such certificate is changed, the investing enterprise shall make the change of registration at MOFCOM or the provincial department of commerce (as the case may be).

If an overseas invested company carries out a re-investment activity offshore, the investing enterprise shall report such re-investment activity to MOFCOM or the provincial department of commerce (as the case may be) after the legal process of the investment is completed offshore. The investing enterprise shall complete and print out a copy of the Overseas Chinese-invested Enterprise Re-investment Report Form (境外中資企業再投資報告表) from the Overseas Investment Management System and stamp and submit such form to MOFCOM or the provincial department of commerce.

### ***Foreign Exchange Administration***

According to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Control Policy on Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知), corporations, enterprises or other economic organisations (domestic investors) that have been permitted to make outbound direct investment shall go through the procedures of registration to competent banks in places where they are registered and the Foreign Exchange Bureau (外匯管理機構) and its branches implement indirect supervision over foreign exchange registration of direct investment via the banks. According to Circular of the State Administration of Foreign Exchange on Issuing the Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions (關於發布境內機構境外直接投資外匯管理規定的通知), the scope of foreign exchange funds for overseas direct investment of domestic institutions includes their own foreign exchange funds, domestic loans in foreign currencies in compliance with relevant provisions, foreign exchange purchased with Renminbi, material objects, intangible assets and other foreign exchange funds approved by the Foreign Exchange Bureaus for overseas direct investment. The profits gained from overseas direct investment of domestic institutions may be deposited in overseas banks and used for overseas direct investment.

According to the Administrative Measures for Foreign Debt Registration (外債登記管理辦法) and its operating guidelines, effective as at 13 May 2013, issuers of foreign debts are required to register with the SAFE. Issuers other than banks and financial departments of the government shall go through registration or record-filing procedures with the local branch of the SAFE within 15 business days of entering into a foreign debt agreement. If the receipt and payment of funds related to the foreign debt of such issuer is not handled through a domestic bank, the issuer shall, in the event of any change in the amount of money withdrawn, principal and interest payable or outstanding debt, go through relevant record-filing procedures with the local branch of the SAFE.

In accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) (“**Cross-Border Guarantees Provisions**”) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014, the Guarantor shall complete cross-border guarantee registration within 15 working days after execution of the relevant Deed of Guarantee. Pursuant to article 31 of the Cross-Border Guarantees Provisions, a failure to comply with registration requirements may result in a warning and fine as set forth under article 48 of the Foreign Exchange Administrative Regulations (外匯管理條例) promulgated by the State Council in 2008.

Pursuant to article 40 of the Foreign Debt Administration Provisional Rules (外債管理暫行辦法) promulgated by MOF, the NDRC and SAFE, a failure by a domestic entity to register a foreign debt or a foreign debt guarantee will render the respective contract not legally binding and unenforceable.



### *State-owned Assets Supervision*

The Interim Measures for Administration of Overseas State-owned Property Rights of Central Enterprises (中央企業境外國有產權管理暫行辦法) and the Interim Measures for the Supervision and Administration of Overseas State-owned Assets of Central Enterprises (中央企業境外國有資產監督管理暫行辦法) also apply to overseas investment projects. Where overseas enterprises wholly owned or controlled by central enterprises or their subsidiaries at all levels conduct economic activities such as transferring or acquiring properties, making non-monetary contribution, changing the state-owned shareholding in non-listed companies, consolidation, division, dissolution or liquidation, they shall appoint a professional agency with the corresponding qualifications, professional experiences and good reputation to evaluate or assess the subject matters, and the evaluation items or valuation results shall be submitted to SASAC for record-filing or approval (as the case may be).

Pursuant to the Interim Measures for Administration of Overseas State-owned Property Right of Central Enterprises, the central enterprise shall, in a unified way, apply for property right registration with the SASAC, where any of the following events take place in connection with a central enterprise or its subsidiaries at all levels:

- where an overseas enterprise is established by way of investment, division or consolidation, or the property right of an overseas enterprise is obtained for the first time by way of acquisition or equity investment;
- where any change occurs to an overseas enterprise's basic information including its name, registration place, registered capital and the main business scope, or the overseas enterprise's property right information changes due to any changes in the capital contributors, amount of capital contributions and proportions of capital contributions;
- where an overseas enterprise no longer keeps state-owned property right due to dissolution, bankruptcy, or property right transfer and capital reduction; or
- other circumstances in which property right registration needs to be made.

## TAXATION

*The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Bondholder or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisors concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.*

### PRC

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

Pursuant to the EIT Law, the IIT Law and the implementation regulations in relation to both the EIT Law and the IIT Law, PRC income tax at a rate of 10 per cent. or 20 per cent. is normally applicable to PRC-source income derived by non-resident enterprises or individuals, respectively, subject to adjustment by applicable treaty. As the Guarantor is a PRC resident enterprise for tax purposes, interest paid by the Guarantor to non-resident Bondholders may be regarded as PRC-sourced, and therefore be subject to PRC income tax at a rate of 10 per cent. for non-resident enterprise Bondholders and at a rate of 20 per cent. for non-resident individual Bondholders (or a lower treaty rate, if any).

Such income tax shall be withheld by the Guarantor that is acting as the obligatory withholder and such PRC enterprise shall withhold the tax amount from each payment or payment due. To the extent that the PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise Bondholders. Under the EIT Law and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Under the EIT Law, a “non-resident enterprise” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Bonds by enterprise holders would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. In addition, under the IIT Law, any individual who has no domicile and does not live within the territory of the PRC or who has no domicile but has lived within the territory of China for less than 183 days cumulatively within one tax year shall pay individual income tax for any income obtained within the PRC. There is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from

the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to the Arrangement, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds if such capital gains are not connected with an office or establishment that the Bondholders have in the PRC and all the other relevant conditions are satisfied.

It is worth mentioning that should the Issuer, as an overseas entity held by the Guarantor, be determined as an overseas registered PRC resident enterprise for tax purposes by PRC competent tax authorities in accordance with PRC laws by virtue of its actual administrative organisation conducted in the PRC, the Issuer would be obligated to withhold PRC income tax on payments of interest and certain other amounts on the Bonds to the Bondholders at a rate of 10 per cent. for non-resident enterprise Bondholders and at a rate of 20 per cent. for non-resident individual Bondholders (or a lower treaty rate, if any). Under the EIT Law and its implementation regulations, “actual administrative organisation” shall mean organisation implementing substantive and comprehensive management and control over the production and business operations, personnel, financial accounts and property etc. of an enterprise.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation issued Circular 36, which introduced a new VAT from 1 May 2016. Under Circular 36, VAT is applicable where the entities or individuals provide services within the PRC. The operating income generated from the provision of taxable sale of services by entities and individuals, such as financial services, shall be subject to PRC VAT if the seller or buyer of the services is within PRC. In the event that foreign entities or individuals do not have a business establishment in the PRC, the purchaser of services shall act as the withholding agent. According to the Explanatory Notes to Sale of Services, Intangible Assets and Real Property attached to Circular 36, financial services refer to the business activities of financial and insurance operation, including loan processing services, financial services of direct charges, insurance services and the transfer of financial instruments, and the VAT rate is 6 per cent. Accordingly, the interest and other interest like earnings received by a non-PRC resident Bondholder from the Guarantor will be subject to PRC VAT at the rate of 6 per cent. The Guarantor will be obligated to withhold VAT of 6 per cent. and certain surcharges on VAT for payments of interest and certain other amounts on the Bonds paid by the Guarantor to Bondholders that are non-resident enterprises or individuals. And as the withholding agent, the Guarantor shall calculate the withholding tax according to the following formula: withholding tax = price paid by the purchaser ÷ (1 + tax rate) × tax rate. Pursuant to Interim Regulation of the PRC on City Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例 (2011修訂)), Interim Provisions on the Collection of Educational Surcharges (徵收教育費附加的暫行規定 (2011修訂)), Notice of the Ministry of Finance on the Relevant Matters regarding Unifying the Policies on Local Education Surcharges (財政部關於統一地方教育附加政策有關問題的通知), and based on consultation with the Shandong local taxation bureau, a city maintenance and construction tax (7 per cent.), an educational surcharge (3 per cent.) and a local educational surcharge (2 per cent.) will be applicable when entities and individuals are obliged to pay VAT (for an aggregate of 12 per cent. on any VAT payable). However, there is uncertainty as to whether gains derived from a sale or exchange of Bonds consummated outside of the PRC between non-PRC resident Bondholders will be subject to PRC VAT. VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC. Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

However, despite the withholding of the PRC tax by the Guarantor, the Guarantor has agreed to pay additional amounts to Bondholders so that Bondholders would receive the full amount of the scheduled payment, as further set out in “*Terms and Conditions of the Bonds – Taxation*”.

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

### **British Virgin Islands**

The Issuer is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands.

Payments of principal, premium or interest in respect of the Bonds to persons who are not resident in the British Virgin Islands are not subject to British Virgin Islands tax or withholding tax. Capital gains realised with respect to the Bonds by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands. No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the British Virgin Islands with respect to the Bonds.

All instruments relating to transactions in respect of the Bonds are exempt from payment of stamp duty in the British Virgin Islands. This assumes that the Issuer do not hold an interest in real estate in the British Virgin Islands.

### **Hong Kong**

#### ***Withholding Tax***

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

#### ***Profits Tax***

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

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

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

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

meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Bonds will be subject to Hong Kong profits tax.

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

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

### ***Stamp Duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond (for so long as the register of Bondholders is maintained outside Hong Kong).

### **FATCA**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to 1 January 2019 and Bonds issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grand-fathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional bonds (as described under “*Terms and Conditions of the Bonds – Further Issues*”) that are not distinguishable from previously issued Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Bonds, including the Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Bondholders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds.

## SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Managers dated 8 June 2021 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Managers, the Guarantor has agreed to guarantee and the Managers have agreed to, severally but not jointly, subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Additional Bonds indicated in the following table:

	<b>Principal amount of the Additional Bonds to be subscribed</b>
	<i>(U.S.\$)</i>
Zhongtai International Securities Limited .....	25,300,000
Shenwan Hongyuan Securities (H.K.) Limited .....	100,000,000
Guosen Securities (HK) Brokerage Company Limited .....	14,700,000
SDG Securities (HK) Limited .....	—
<b>Total</b> .....	<b>140,000,000</b>

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

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

In connection with the offering of the Additional Bonds, the Managers and/or their respective affiliates may place orders, receive allocations and purchase Bonds for their own account (without a view to distributing such Bonds). Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering. Accordingly, references herein to the Additional Bonds being offered should be read as including any offering of the Bonds to the Managers and/or their respective affiliates for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Additional Bonds. If this is the case, liquidity of trading in the Additional Bonds may be constrained (see “*Risk Factor – Risks relating to the Bonds – An active trading market for the Bonds may not develop*”). The Issuer, the Guarantor and the Managers are under no obligation to disclose the extent of the distribution of the Additional Bonds amongst individual investors.

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



or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Additional Bonds or other financial instruments.

**IN CONNECTION WITH THE ISSUE OF THE ADDITIONAL BONDS, THE STABILISING MANAGER OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND DIRECTIVES, OVER-ALLOT THE ADDITIONAL BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL, BUT IN SO DOING, THE STABILISING MANAGER OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE ISSUER. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER WILL UNDERTAKE STABILISATION ACTION. ANY LOSS OR PROFIT SUSTAINED AS A CONSEQUENCE OF ANY SUCH OVERALLOTMENT OR STABILISATION SHALL BE FOR THE ACCOUNT OF THE MANAGERS.**

### **General**

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Additional Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer or the Managers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Additional Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Additional Bonds or any other offering or publicity material relating to the Additional Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the Additional Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Additional Bonds and the Guarantee may be distributed or published, by the Issuer or the Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer or the Managers. If a jurisdiction requires that an offering of Additional Bonds be made by a licensed broker or dealer and any Manager or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by such Manager or such affiliate on behalf of the Issuer in such jurisdiction.

### **United States**

The Additional Bonds and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Additional Bonds and the Guarantee are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Additional Bonds and the Guarantee, an offer or sale of Additional Bonds or Guarantee within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

## **United Kingdom**

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

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

## **British Virgin Islands**

Each of the Managers has represented, warranted and agreed that no invitation has been made or will be made, directly or indirectly, to any person in the British Virgin Islands or to the public in the British Virgin Islands to purchase the Additional Bonds and the Additional Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by the British Virgin Islands laws.

This Offering Circular does not constitute, and there will not be, an offering of the Additional Bonds to any person in the British Virgin Islands.

## **Hong Kong**

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

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

## **The People’s Republic of China**

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

## **Singapore**

Each of the Managers has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the

Managers has represented, warranted and agreed that it has not offered or sold any Additional Bonds or caused such Additional Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Additional Bonds or cause such Additional Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or dis-tribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Additional Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

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

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

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

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Additional Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: No-tice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

## Japan

The Additional Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Managers has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Additional Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used

here-in means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## SUMMARY OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND IFRS

*The Guarantor's Audited Consolidated Financial Statements included in this Offering Circular were prepared and presented in accordance with PRC GAAP. PRC GAAP are substantially in line with IFRS, except for certain modifications between PRC GAAP and IFRS. The following is a general summary of certain differences between PRC GAAP and IFRS on recognition and presentation as applicable to the Guarantor. The Guarantor is responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the financial information and related footnote disclosure between PRC GAAP and IFRS and no attempt has been made to quantify such differences. Had any such quantification or reconciliation been undertaken by the Guarantor, other potentially significant accounting and disclosure differences may have required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate PRC GAAP and IFRS have significant ongoing projects that could affect future comparisons or events that may occur in the future.*

### **Government Grant**

Under PRC GAAP, an assets-related government grant is only required to be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. However, under IFRS, such assets-related government grants are allowed to be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Under PRC GAAP, the relocation compensation for public interests is required to be recognised as special payables. The income from compensation attributable to losses of fixed assets and intangible assets, related expenses, losses from production suspension incurred during the relocation and reconstruction period and purchases of assets after the relocation shall be transferred from special payables to deferred income and accounted for in accordance with the government grants standard. The surplus reached after deducting the amount transferred to deferred income shall be recognised in capital reserve. Under IFRS, if an entity relocates for reasons of public interests, the compensation received shall be recognised in profit and loss.

### **Reversal of Impairment Loss**

Under PRC GAAP, once an impairment loss is recognised for a long-term asset (including fixed assets, intangible assets and goodwill, etc.), it shall not be reversed in any subsequent period. Under IFRS, an impairment loss recognised in prior periods for an asset other than goodwill could be reversed if there has been a change in the estimates used to determine the asset's re-coverable amount since the last impairment loss was recognised.

### **Related Party Disclosures**

Under PRC GAAP, government-related entities are not treated as related parties.

Under IFRS, government-related entities are still treated as related parties.

### **Fixed Assets and Intangible Assets**

Under PRC GAAP, only the cost model is allowed.

Under IFRS, an entity can choose either the cost model or the revaluation model as its accounting policy.

## GENERAL INFORMATION

1. **Clearing System:** The Additional Bonds have been accepted for clearance through Euroclear and Clearstream under temporary Common Code 235124459 and the temporary ISIN for the Additional Bonds is XS2351244590. On the Consolidation Date, the Additional Bonds will be consolidated into and form a single series with the Original Bonds, and the whole series of the Bonds will thereafter be cleared through Euroclear and Clearstream under the Common Code 219957548 and the ISIN XS2199575486.
2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue, entering into and performance of its obligations under the Bonds, the Trust Deed and the Agency Agreement. The issue of the Bonds was authorised by a resolution of the sole director of the Issuer dated 7 July 2020 in respect of the Original Bonds and 12 March 2021 in respect of the Additional Bonds, respectively. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee. The giving of the Guarantee was authorised by a resolution of the board of directors of the Guarantor dated on 12 December 2019 in respect of the Original Bonds and 11 March 2021 in respect of the Additional Bonds, respectively.
3. **No Material and Adverse Change:** There has been no change, or any development or event involving a prospective change, in the condition (financial or other), prospects, results of operations or general affairs of the Issuer, the Guarantor or the Group, which is material and adverse in the context of the issue and offering of the Bonds since 31 December 2020.
4. **Litigation:** None of the Issuer, the Guarantor or any member of the Group is involved in any litigation or arbitration proceedings which could have a material and adverse effect on the condition (financial or other), prospects, results of operations or general affairs of the Issuer, the Guarantor or the Group nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened.
5. **Available Documents:** Copies of the Guarantor's Audited Consolidated Financial Statements, the Trust Deed, the Agency Agreement and the Deeds of Guarantee relating to the Additional Bonds will be available for inspection upon prior written request and proof of holding and identity satisfactory to the Trustee or the Principal Paying Agent, as the case may be, at the principal office of the Trustee, being at the date of this Offering Circular at 20/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong and at the specified office of the Principal Paying Agent from time to time, at all reasonable times during normal business hours, so long as any Additional Bond is outstanding.
6. **Financial Statements:** The Guarantor's 2019 Audited Consolidated Financial Statements and Guarantor's 2020 Audited Consolidated Financial Statements, which are included elsewhere in this Offering Circular, have been audited by Jonten and CAAP, respectively.
7. **Listing of Bonds:** The Original Bonds are listed on the Hong Kong Stock Exchange, effective from 31 August 2020 and represented by the stock code 40363. Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Additional Bonds by way of debt issues to Professional Investors only and such listing and permission is expected to become effective on or about three business days in Hong Kong after the Consolidation Date and the whole series of the Bonds will be represented by the stock code 40363 after such permission has become effective.
8. **LEI:** The Issuer's LEI code is 3003005CZJ17GBNT2975.



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中审亚太会计师事务所（特殊普通合伙）  
China Audit Asia Pacific Certified Public Accountants LLP

## Auditor's Report

SHANDONG COMMERCIAL GROUP  
CO., LTD.

2020 Consolidated Financial Statement Audit



BEIJING CHINA

# Catalogue

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# Auditor's Report

China Audit Asia Pacific [2021] Auditing No. 020696

To the Shareholders of Shandong Commercial Group Co., Ltd.:

## 1. Opinion

We have audited the financial statements of Shandong Commercial Group Co., Ltd.(hereinafter referred to as "Commercial Group"), which comprise the consolidated and parent company's balance sheet as at December 31, 2020, the consolidated and parent company's income statement, the consolidated and parent company's statement of cash flows, and the consolidated and parent company's statement of changes in owner's equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements of Commercial Group present fairly, in all material respects, the consolidated and parent company's financial position as at 31 December 2020, the consolidated and parent company's results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

## 2. Basis for opinion

We conducted our audit in accordance with China Standards on Auditing for Chinese Certified Public Accountants. 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 Commercial Group in accordance with the Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities of the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

### **3. Responsibilities of the Management and Those Charged with Governance for the Financial Statements**

The Management of Commercial Group (hereinafter referred to as “the management”) is responsible for the preparation of the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation; and designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing Commercial Group’s ability to continue as a going concern, disclosing the events related to continue as a going concern and using the going concern basis of accounting unless the Management either intends to liquidate Commercial Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance of Commercial Group are responsible to overseeing Commercial Group’s financial reporting process.

### **4. Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

During the course of audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism. We also carry out the following works:

(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 audit. 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, but not for the purpose of expressing an opinion on the effectiveness of its internal control.

(3) Evaluate the appropriateness of accounting policies used 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 basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Commercial Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements in accordance with the auditing standards or, if such disclosures are inadequate, we shall 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 Commercial Group to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and also whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient and appropriate audit evidence in view of financial information of entities or business activities of Commercial Group and express an opinion on the financial statements . We are responsible for guiding , supervising and executing the group audit and undertake all the responsibilities for the auditing opinio on.

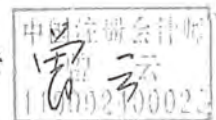


We communicate with those charged with governance regarding the planned scope and timing of the audit and significant audit findings etc., including any significant deficiencies in internal control that we identify during our audit.

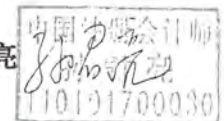
China Audit Asia Pacific Certified  
Public Accountants LLP



Chinese CPA : 曾云



Chinese CPA : 孙君亮



April 27, 2021

# Consolidated Balance Sheet

Shandong Commercial Group Co., Ltd.(Consolidation)

Unit: CNY

Item	Note	December 31, 2020	December 31, 2019
<b>Current assets:</b>			
Monetary assets	VIII.1	13,486,474,694.56	10,675,329,176.42
Deposit Reservation for Balance			
Funds lent			
Trading financial assets			
Financial assets measured at fair value through current profit and loss	VIII.2	5,625,828,682.38	3,975,058,648.42
Derivative financial assets			
Notes receivable	VIII.3	187,374,915.33	263,373,724.18
Accounts receivable	VIII.4	945,190,577.94	849,783,507.15
Accounts receivables financing	VIII.5	256,811,240.51	
Advances to suppliers	VIII.6	5,414,043,244.32	5,013,510,641.50
Insurance premium receivable			
Reinsurance accounts receivable			
Reinsurance contract provision receivable			
Other receivables	VIII.7	6,438,697,371.03	6,472,331,232.13
Buying back the sale of financial assets			
Inventories	VIII.8	50,027,211,333.03	47,269,721,058.58
Contract assets			
Assets held for sale			
Non-current assets maturing within one year	VIII.9	599,800,000.00	
Other current assets	VIII.10	1,905,848,282.65	1,947,437,001.47
<b>Total current assets</b>		<b>84,887,280,341.75</b>	<b>76,466,544,989.85</b>
<b>Non-current assets:</b>			
Grant of loans and advances	VIII.11	474,211,585.79	436,887,655.42
Debt investments	VIII.12	37,629,985.40	62,391,530.08
Available-for-sale financial assets	VIII.13	1,240,143,914.53	2,039,295,600.14
Other debt investments			
Held-to-maturity investments	VIII.14	732,846,512.20	186,428,140.60
Long-term receivables	VIII.15	658,595,558.70	1,118,494,395.36
Long-term equity investments	VIII.16	1,519,088,084.84	611,937,676.02
Other equity instruments investments	VIII.17	110,000,000.00	90,000,000.00
Other non-current financial assets			
Investment properties	VIII.18	6,988,423,669.48	6,652,696,674.17
Fixed assets	VIII.19	10,097,256,845.38	9,255,785,209.05
Construction in progress	VIII.20	1,355,179,560.62	509,990,548.93
Productive biological assets			
Oil and gas assets			
Right to use assets			
Intangible assets	VIII.21	5,084,732,160.10	2,402,517,496.95
Development expenses	VIII.22	10,502,939.43	2,005,752.96
Goodwill	VIII.23	2,087,128,425.01	1,920,469,689.18
Long-term prepaid expenses	VIII.24	817,371,700.26	699,584,152.56
Deferred income tax assets	VIII.25	405,190,223.63	442,846,434.14
Other non-current assets	VIII.26	850,975,532.43	488,492,313.31
<b>Total non-current assets</b>		<b>32,469,276,697.80</b>	<b>26,919,823,268.87</b>
<b>Total assets</b>		<b>117,356,557,039.55</b>	<b>103,386,368,258.72</b>

The financial statements on pages 5 to 16 are signed by:

Legal representative of Enterprise:



Accounting Principal:



Accounting Firm's Principal:



# Consolidated Balance Sheet

Shandong Commercial Group Co., Ltd.(Consolidation)

Unit: CNY

Item	Note	December 31, 2020	December 31, 2019
<b>Current liabilities:</b>			
Short-term loans	VIII.27	15,471,929,174.45	13,975,735,248.16
Borrowings from the Central Bank			
Funds borrowed			
Transaction financial liabilities			
Financial liabilities measured at fair value through current profit and			
Derivative financial liabilities			
Notes payable	VIII.28	6,902,789,683.19	5,777,845,034.35
Accounts payable	VIII.29	10,144,752,682.06	9,161,847,545.95
Advances from customers	VIII.30	2,012,495,083.54	17,111,812,995.99
Contract liabilities	VIII.31	18,599,922,641.83	
Financial assets sold for repurchase	VIII.32	340,150,000.00	880,000,000.00
Absorption of deposits and interbank deposit	VIII.33	2,827,552.25	
Acting trading securities			
Acting underwriting securities			
Employee remuneration payable	VIII.34	537,497,962.81	413,194,597.22
Taxes and surcharges payable	VIII.35	1,268,739,019.66	959,206,118.87
Other payables	VIII.36	8,788,625,929.81	7,043,143,668.09
Handling charges and commissions payable			
Reinsurance accounts payable			
Liabilities held for sale			
Non-current liabilities maturing within one year	VIII.37	15,639,558,640.67	9,817,626,560.89
Other current liabilities	VIII.38	727,134,648.17	29,409,666.66
<b>Total current liabilities</b>		<b>80,436,423,018.44</b>	<b>65,169,821,436.18</b>
<b>Non-current liabilities:</b>			
Insurance contract reserves			
Long-term loans	VIII.39	7,947,789,915.16	8,416,404,272.08
Bonds payable	VIII.40	3,925,387,404.61	7,046,143,024.16
Lease liability			
Long-term payables	VIII.41	1,710,107,313.03	2,076,793,477.08
Long-term employee remuneration payable	VIII.42	2,675,422.17	4,179,650.75
Estimated liabilities	VIII.43	41,818,337.41	54,521,593.04
Deferred income	VIII.44	203,287,517.28	195,345,512.68
Deferred income tax liabilities	VIII.45	559,092,649.96	589,683,791.57
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>14,390,158,559.62</b>	<b>18,383,071,321.36</b>
<b>Total liabilities</b>		<b>94,826,581,578.06</b>	<b>83,552,892,757.54</b>
<b>Owners' equity (or shareholder's equity) :</b>			
Paid-in capital (or share capital)	VIII.46	2,097,767,489.50	2,097,767,489.50
State capital			
State owned corporate capital			
Collective capital			
Private capital			
Foreign capital			
Less: Returned investment			
Net amount for Paid-in capital (or share capital)		2,097,767,489.50	2,097,767,489.50
Other equity instruments	VIII.47	3,860,178,377.36	5,910,178,377.36
Including: Preferred shares			
Perpetual bond		3,860,178,377.36	5,910,178,377.36
Capital reserves	VIII.48	999,957,515.80	618,508,819.22
Less: treasury stock			
Other comprehensive income	VIII.49	99,866,817.93	324,087,164.43
Including: Translation differences of financial statements denominated in foreign currency		1,403,513.27	
Special reserves	VIII.50	41,728.99	
Surplus reserves	VIII.51	615,505,542.95	569,163,754.33
Including: Statutory provident fund		615,505,542.95	569,163,754.33
Discretionary provident fund			
General risk reserves		133,249.85	222,861.58
Undistributed profits	VIII.52	1,913,278,801.01	2,532,492,968.45
<b>Total equity attributable to owners of the parent company</b>		<b>9,586,729,523.39</b>	<b>12,052,421,434.87</b>
Minority equity		12,943,245,938.10	7,781,054,066.31
<b>Total owners' equity</b>		<b>22,529,975,461.49</b>	<b>19,833,475,501.18</b>
<b>Total liabilities and owners' equity</b>		<b>117,356,557,039.55</b>	<b>103,386,368,258.72</b>

The notes to the financial statements on pages 17 to 152 form an integral part of the financial statements

The financial statements on pages 5 to 16 are signed by:

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:



# Consolidated income statement

Shandong Commercial Group Co., Ltd.(Consolidation)

Unit: CNY

Item	Note	Jan. to Dec.,2020	Jan. to Dec.,2019
<b>I.Total operating income</b>		35,802,100,826.22	39,832,847,208.90
Including:Operating income		35,705,479,112.43	39,767,182,865.28
Interest income		93,149,360.67	64,043,236.11
Insurance premiums earned			-
Handling charges and commissions income		3,472,353.12	1,621,107.51
<b>II.Total operating costs</b>		35,980,871,471.24	39,144,190,190.16
Including:Operating costs		27,353,166,303.43	31,485,046,048.48
Interest expenses		84,525,969.15	23,190,801.36
Handling charges and commissions expenses		967,583.69	729,689.07
Surrender value			
Net payments for insurance claims			
Net provision for insurance contracts			
Commissions on insurance policies			
Cession charges			
Taxes and surcharges		1,076,190,604.97	932,624,574.92
Selling expenses		4,301,341,033.45	4,166,379,543.68
General and administrative expenses		1,822,638,865.32	1,417,827,480.13
Research and development expenses		212,113,683.36	146,068,135.88
Financial expenses		1,129,927,427.87	972,323,916.64
Including:Interest expenses		984,527,062.44	800,617,841.23
Interest income		67,095,443.10	51,385,649.39
Plus:Other income		181,424,124.95	78,081,948.34
Investment income("-"for losses)		866,944,404.08	661,430,118.75
Including:income from investment in associates and joint		-6,219,786.65	162,854,353.05
Income from derecognition of financial assets measured at			
amortised cost			
Exchange earnings("-"for losses)			
Net exposure hedging income("-"for losses)			
Gains from changes in fair value("-"for losses)		322,541,701.78	27,110,124.14
Losses from credit impairment("-"for losses)		-72,052,087.44	-13,405,142.47
Losses from asset impairment("-"for losses)		-67,541,619.64	-271,237,690.41
Gain/(loss) from asset disposal("-"for losses)		6,089,850.46	-24,577,676.30
<b>III.Operating profits("-"for losses)</b>		1,058,635,729.48	1,146,058,700.79
Plus:Non-operating income		59,528,050.46	46,190,123.04
Less:Non-operating expenses		248,580,766.13	77,932,757.68
<b>IV.Total profits("-"for total losses)</b>		869,583,013.81	1,114,316,066.15
Less:income tax expenses		627,159,701.47	459,066,546.50
<b>V.Net profit("-"for net loss)</b>		242,423,312.04	655,249,519.65
1.Classification by ownership			
(1) Net profit attributable to owners of the parent		267,054,631.04	389,336,680.64
(2) Minority shareholders' gains and losses("-"for net loss)		-24,631,319.00	265,912,839.01
2.Classification by continuous operation			
(1) Net profit from continuous operation ("-"for net loss)		242,423,312.04	655,249,519.65
(2) Net profit from discontinuing operation("-"for net loss)			
<b>VI.Net of tax of other comprehensive income</b>		-278,601,533.26	72,439,704.88
Net of tax of other comprehensive income attributable to owners			
of the parent company		-224,220,346.50	63,391,367.29
1.Other comprehensive income that cannot be reclassified into			
gains and losses subsequently			
(1) Changes in re-measurement of defined benefit plan			
(2) Other comprehensive income that cannot be reclassified			
into gains and losses under the equity method			
(3) Changes in fair value of other equity instruments			
(4) Changes in fair value of enterprise's own credit risk			
(5) Others			
2.Other comprehensive income to be reclassified into gains and			
losses subsequently		-224,220,346.50	63,391,367.29
(1) Other comprehensive income to be reclassified into			
gains and losses under the equity method			
(2) Changes in fair value of other debt investments			
(3) Gains and losses on changes in fair value of financial			
assets available for sale		-226,369,813.33	55,031,722.42
(4) Amount arising from reclassification of financial assets			
as Other comprehensive income			
(5) Gains and losses from reclassification of held-			
to-maturity investments as financial assets available for sale			
(6) Credit impairment reserves of other debt investments			
(7) Cash flow hedging reserves			
(8) Translation differences of financial statements			
denominated in foreign currency		2,149,466.83	-249,919.35
(9) Others			8,609,564.22
Net of tax of other comprehensive income attributable to minority			
shareholders		-54,381,186.76	9,048,337.59
<b>VII.Total comprehensive incomes</b>		-36,178,221.22	727,689,224.53
Total comprehensive income attributable to owners of the parent		42,834,284.54	452,728,047.93
Total comprehensive income attributable to minority shareholders		-79,012,505.76	274,961,176.60
<b>VIII.Earnings per share:</b>			
Basic earnings per share			
Diluted earnings per share			

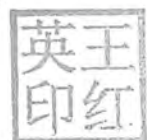
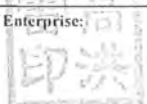
The notes to the financial statements on pages 17 to 152 form an integral part of the financial statements

The financial statements on pages 5 to 16 are signed by:

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:



## Consolidated statement of cash flows

Shandong Commercial Group Co., Ltd.(Consolidation)

Unit: CNY

Item	Note	December 31,2020	December 31,2019
<b>I.Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		43,304,867,555.77	42,425,254,672.49
Net increase in deposits from customers and placements from corporations in the same industry			
Net increase in borrowings from the Central Bank			
Net increase in borrowings from other financial institutions			
Cash premiums received on original insurance contracts			
Net cash received from reinsurance business			
Net increase in deposits and investments from insurers			
Cash received from interest, handling charges and commissions		98,615,735.30	53,071,251.19
Net increase in funds deposit			-200,000,000.00
Net increase in repurchase business funds		-539,850,000.00	607,250,000.00
Refunds of taxes and surcharges		35,860,031.33	102,269,835.48
Cash received from other operating activities		2,768,989,732.79	5,139,688,810.21
Sub-total of cash inflows from operating activities		45,668,483,055.19	48,127,534,569.36
Cash paid for goods purchased and services received		30,071,096,160.33	35,552,803,904.00
Net increase in loans and payments on behalf		197,768,163.04	65,989,613.56
Net increase in deposits with Central Bank and interbank			
Cash paid of claims for original insurance contracts			
Net increase in funds lent			
Cash paid for interest, handling charges and commissions		30,950,537.61	4,679,207.76
Cash paid on insurance policies			
Cash paid to and on behalf of employees		3,285,669,663.96	3,021,399,899.09
Cash paid for taxes and surcharges		2,542,862,748.22	2,327,715,209.58
Cash paid for other operating activities		5,547,975,868.28	5,242,590,474.86
Sub-total of cash outflows from operating activities		41,676,323,141.44	46,215,178,308.85
Net cash flows from operating activities	VIII.68	3,992,159,913.75	1,912,356,260.51
<b>II.Cash flows from investing activities</b>			
Cash received from disposal of investments		4,021,615,229.36	3,217,558,109.73
Cash received from returns on investments		410,042,778.61	209,846,167.40
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		44,868,909.66	31,451,802.57
Cash inflow from disposal of subsidiaries and other operating units		1,323,781.79	
Cash received from other investing activities		630,325,322.88	617,578,850.03
Sub-total of cash inflows from investing activities		5,108,176,022.30	4,076,434,929.73
Cash paid to acquire and construct fixed assets,intangible assets and other long-term assets		770,548,187.15	916,358,085.71
Cash paid for investments		4,723,328,628.75	3,825,202,761.51
Net increase in pledge loans			
Net cash paid to acquire subsidiaries and other business units		227,864,088.77	
Cash paid for other investing activities		161,742,681.12	284,520,566.46
Sub-total of cash outflows from investing activities		5,883,483,585.79	5,026,081,413.68
Net cash flows from investing activities		-775,307,563.49	-949,646,483.95
<b>III.Cash flows from financing activities</b>			
Cash received from investors		1,468,013,230.22	1,526,480,000.00
Including: Cash received from issuing shares of minority shareholders by subsidiaries		484,755,490.10	1,483,016,000.00
Cash received from borrowings		47,283,099,463.89	34,624,573,092.07
Cash received from other financing activities		6,709,526,586.14	1,423,494,426.67
Sub-total of cash inflows from financing activities		55,460,639,280.25	37,574,547,518.74
Cash paid for debt repayments		45,604,261,740.15	33,304,645,631.88
Cash paid for distribution of dividends and profits or payment of interest		3,173,543,856.49	2,792,795,130.22
Including: Dividends and profits paid by subsidiaries to minority shareholders		33,745,900.00	69,825,313.57
Cash paid for other financing activities		7,597,024,457.65	889,107,868.58
Sub-total of cash outflows from financing activities		56,374,830,054.29	36,986,548,630.68
Net cash flows from financing activities		-914,190,774.04	587,998,888.06
<b>IV.Effect of fluctuation in exchange rate on cash and cash equivalents</b>		-10,240,977.70	1,037,482.32
<b>V.Net increase in cash and cash equivalents</b>		2,292,420,598.52	1,551,746,146.94
Plus:balance of cash and cash equivalents at the beginning of the period		7,917,524,031.69	6,365,777,884.75
<b>VI.Balance of cash and cash equivalents at the end of the period</b>		10,209,944,630.21	7,917,524,031.69

The notes to the financial statements on pages 17 to 152 form an integral part of the financial statements

The financial statements on pages 5 to 16 are signed by:

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:







# Consolidated statement of changes in owner's equity

	Jan. to Dec. 2020										Unit: CNY	
	The owner's equity attributable to parent company											
	Paid-in capital (or stock)	Other equity instruments	Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserve	ΔProvision for normal risks	Undistributed profit	Subtotal	Minority equity	Total owners' equity
I. Closing balance at prior year-end	2,097,767,489.50	5,910,178,377.36	618,508,819.22		324,087,164.43		569,163,744.33	232,861.58	2,532,492,968.45	12,053,421,434.87	7,781,054,066.31	19,833,475,501.18
II. Increase/decrease in current year (fill "+" for increases)												
1. Total comprehensive income												
2. Capital contributed by owners and capital decreases												
(1) Common stocks invested by shareholders												
(2) Holders of other equity instruments invested capital												
(3) The amount of share-based payments recorded in owners' equity												
(4) Others												
3. Extraction and use of special reserves												
(1) Extraction of special reserves												
(2) Use of special reserves												
4. Profit distribution												
(1) Appropriation of surplus reserve												
Including Statutory provision fund												
Discretionary provision fund												
Reserve fund												
Enterprise development fund												
Return of profits to investors												
(2) Extraction of general risk reserves												
(3) Profit distributed to owners (or stockholders)												
(4) Others												
5. Transfers within the owners' equity												
(1) Capital (or stock) transferred from capital surplus												
(2) Capital (or stock) transferred from surplus reserve												
(3) Recovery of losses by surplus reserve												
(4) Carrying forward the changes in defined benefit plan to retained earnings												
(5) Carrying forward other comprehensive income to retained earnings												
(6) Others												
IV. Balance at the end of current year	2,097,767,489.50	3,860,178,377.36	999,937,515.80		99,866,817.93	41,728.99	615,505,542.95	133,249.85	1,913,276,801.01	9,586,729,533.39	12,943,245,938.10	22,529,975,461.49

The notes to the financial statements on pages 17 to 153 form an integral part of the financial statements

The financial statements on pages 5 to 16 are signed by:

Accounting Principals:

Accounting Firm's Principal:

Legal representative of Enterprise:

曹同洪

良王印远

英王印红

英王印红





# Consolidated statement of changes in owner's equity

Unit: CNY

I. Co.	Jan. to Dec. 2019											
	The owner's equity attributable to parent company											
	Paid-in capital (or stock)	Other equity instruments	Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Δ Provision for normal risks	Undistributed profit	Subtotal	Minority equity	Total owners' equity
I. Closing balance of prior year	2,097,767,489.50	Preferred shares 6,300,178,377.36	Others 6,300,178,377.36	551,079,932.46	260,695,797.14	1,454,631.97	615,772,668.59		2,539,544,828.17	12,366,493,725.19	6,068,935,098.07	18,435,428,823.26
ADD: Accounting policy changes									2,205,078.10	2,205,078.10	3,156,567.60	5,361,645.70
Provision correction												
Others												
II. Balance at the beginning of current year	2,097,767,489.50	6,300,178,377.36	6,300,178,377.36	551,079,932.46	260,695,797.14	1,454,631.97	615,772,668.59		2,541,749,906.27	12,368,698,802.29	6,072,091,665.67	18,440,790,468.96
III. Increases/ decreases in current year (fill "+" for increases)												
1. Total comprehensive income												
2. Capital contributed by owners and capital decreases												
(1) Common stocks invested by shareholders												
(2) Holders of other equity instruments invested												
capital												
(3) The amount of share-based payments recorded in owners' equity												
(4) Others												
3. Extinction and use of special reserves												
(1) Extinction of special reserves												
(2) Use of special reserves												
4. Profit distribution												
(1) Appropriation of surplus reserve												
Including Statutory provision fund												
Discretionary provision fund												
#Reserve fund												
#Enterprise development fund												
#Return of profits to investment												
(2) Extinction of general risk reserves												
(3) Profit distributed to owners (or stockholders)												
(4) Others												
5. Transfers within the owners' equity												
(1) Capital (or stock) transferred from capital surplus												
(2) Capital (or stock) transferred from surplus reserve												
(3) Recovery of losses by surplus reserve												
(4) Carrying forward the changes in defined benefit plan to retained earnings												
(5) Carrying forward other comprehensive income to retained earnings												
(6) Others												
IV. Balance at the end of current year	2,097,767,489.50	5,910,178,377.36		618,508,819.22	324,087,164.43		569,163,754.33	222,861.58	2,532,492,968.45	12,052,421,434.87	7,781,054,066.31	19,833,475,501.18

The notes to the financial statements on pages 17 to 132 form an integral part of the financial statements

The financial statements on pages 5 to 16 are signed by:

The financial statements on pages 5 to 16 are signed by:

Accounting Firm's Principal:

Accounting Principal:

Legal representative of Enterprise:

英王印红

良王印远

印洪

# Parent company's balance sheet

Shandong Commercial Group Co., Ltd.

Unit: CNY

Item	Note	December 31, 2020	December 31, 2019
<b>Current assets:</b>			
Monetary assets		2,167,487,356.93	1,081,647,566.37
Deposit Reservation for Balance			
Funds lent			
Trading financial assets			
Financial assets measured at fair value through current profit and loss		2,271.30	50,448,242.91
Derivative financial assets			
Notes receivable			
Accounts receivable			
Accounts receivables financing			
Advances to suppliers		1,635,987.28	
Insurance premium receivable			
Reinsurance accounts receivable			
Reinsurance contract provision receivable			
Other receivables	XV.1	24,463,318,430.58	26,542,568,028.56
Including: Dividend receivable		183,079,862.41	45,720,163.59
Buying back the sale of financial assets			
Inventories			
Contract assets			
Assets held for sale			
Non-current assets maturing within one year			
Other current assets		6,921,950.56	4,278,284.33
<b>Total current assets</b>		<b>26,639,365,996.65</b>	<b>27,678,942,122.17</b>
<b>Non-current assets:</b>			
Grant of loans and advances			
Debt investments			
Available-for-sale financial assets		362,160,714.96	528,858,641.24
Other debt investments			
Held-to-maturity investments		2,000,000.00	12,000,000.00
Long-term receivables			
Long-term equity investments	XV.2	9,266,360,150.86	7,055,985,307.41
Other equity instruments investments			
Other non-current financial assets			
Investment properties			
Fixed assets		1,112,644.51	1,327,028.21
Construction in progress			
Productive biological assets			
Oil and gas assets			
Right to use assets			
Intangible assets		333,877.54	12,636.04
Development expenses		7,757,460.21	
Goodwill			
Long-term prepaid expenses		19,478,130.90	50,538,286.21
Deferred income tax assets			
Other non-current assets			
<b>Total non-current assets</b>		<b>9,659,202,978.98</b>	<b>7,648,721,899.11</b>
<b>Total assets</b>		<b>36,298,568,975.63</b>	<b>35,327,664,021.28</b>
The notes to the financial statements on pages 17 to 152 form an integral part of the financial statements			
The financial statements on pages 5 to 16 are signed by:			

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:

## Parent company's balance sheet

Shandong Commercial Group Co., Ltd.

Unit: CNY

Item	Note	December 31, 2020	December 31, 2019
<b>Current liabilities:</b>			
Short-term loans		6,938,000,000.00	7,283,000,000.00
Borrowings from the Central Bank			
Funds borrowed			
Transaction financial liabilities			
Financial liabilities measured at fair value through current profit			
Derivative financial liabilities			
Notes payable		651,740,000.00	795,200,000.00
Accounts payable			
Advances from customers			
Contract liabilities			
Financial assets sold for repurchase			
Absorption of deposits and interbank deposit			
Acting trading securities			
Acting underwriting securities			
Employee remuneration payable		4,016,191.41	3,089,314.34
Taxes and surcharges payable		4,508,195.78	3,539,962.21
Other payables		10,401,533,250.25	5,706,887,120.03
Handling charges and commissions payable			
Reinsurance accounts payable			
Liabilities held for sale			
Non-current liabilities maturing within one year		10,600,433,089.12	5,800,000,000.00
Other current liabilities			
<b>Total current liabilities</b>		<b>28,600,230,726.56</b>	<b>19,591,716,396.58</b>
<b>Non-current liabilities:</b>			
Insurance contract reserves			
Long-term loans		363,000,000.00	1,160,000,000.00
Bonds payable		2,764,355,689.92	7,046,143,024.16
Lease liability			
Long-term payables		839,911,481.13	1,481,472,890.35
Long-term employee remuneration payable			
Estimated liabilities			
Deferred income			
Deferred income tax liabilities			39,551,208.18
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>3,967,267,171.05</b>	<b>9,727,167,122.69</b>
<b>Total liabilities</b>		<b>32,567,497,897.61</b>	<b>29,318,883,519.27</b>
<b>Owners' equity (or shareholder's equity) :</b>			
Paid-in capital (or share capital)		1,220,000,000.00	1,220,000,000.00
Other equity instruments		3,860,178,377.36	5,910,178,377.36
Including: Preferred shares			
Perpetual bond			
Capital reserves		943,560,810.60	509,997,559.84
Less: treasury stock			
Other comprehensive income			118,653,604.53
Special reserves			
Surplus reserves		3,653,312.63	3,653,312.63
Including: Statutory provident fund			
Discretionary provident fund			
General risk reserves			
Undistributed profits		-2,296,321,422.57	-1,753,702,352.35
<b>Total equity attributable to owners of the parent company</b>		<b>3,731,071,078.02</b>	<b>6,008,780,502.01</b>
Minority equity			
<b>Total owners' equity</b>		<b>3,731,071,078.02</b>	<b>6,008,780,502.01</b>
<b>Total liabilities and owners' equity</b>		<b>36,298,568,975.63</b>	<b>35,327,664,021.28</b>
The notes to the financial statements on pages 17 to 152 form an integral part of the financial statements			
The financial statements on pages 5 to 16 are signed by:			

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:

# Parent company's income statement

Shandong Commercial Group Co., Ltd.

Unit: CNY

Item	Note	Jan. to Dec., 2020	Jan. to Dec., 2019
<b>I. Total operating income</b>		58,633,896.02	48,845,471.88
Including: Operating income		58,633,896.02	48,845,471.88
Interest income			
Insurance premiums earned			
Handling charges and commissions income			
<b>II. Total operating costs</b>		538,916,849.16	425,383,334.69
Including: Operating costs			
Interest expenses			
Handling charges and commissions expenses			
Surrender value			
Net payments for insurance claims			
Net provision for insurance contracts			
Commissions on insurance policies			
Cession charges			
Taxes and surcharges		1,884,225.82	1,708,395.42
Selling expenses			
General and administrative expenses		44,892,805.00	62,354,072.58
Research and development expenses		6,000,000.00	100,006.75
Financial expenses		486,139,818.34	361,220,859.94
Including: Interest expenses		1,870,649,610.69	1,778,094,683.85
Interest income		1,534,593,843.94	1,542,922,026.24
Plus: Other income		312,417.45	956,026.44
Investment income ("-" for losses)	XV.3	512,573,411.70	453,955,941.06
Including: income from investment in associates and joint			
Income from derecognition of financial assets measured at			
Exchange earnings ("-" for losses)			
Net exposure hedging income ("-" for losses)			
Gains from changes in fair value ("-" for losses)		-	24,169,830.86
Losses from credit impairment ("-" for losses)			
Losses from asset impairment ("-" for losses)		-19,876,987.58	-49,318,561.77
Gain/(loss) from asset disposal ("-" for losses)		28,032.34	
<b>III. Operating profits ("-" for losses)</b>		12,753,920.77	53,225,373.78
Plus: Non-operating income			379,846.65
Less: Non-operating expenses		-118,365,465.43	425,810.42
<b>IV. Total profits ("-" for total losses)</b>		-105,611,544.66	53,179,410.01
Less: income tax expenses			
<b>V. Net profit ("-" for net loss)</b>		-105,611,544.66	53,179,410.01
1. Classification by ownership			
(1) Net profit attributable to owners of the parent		-105,611,544.66	53,179,410.01
(2) Minority shareholders' gains and losses ("-" for net loss)			
2. Classification by continuous operation			
(1) Net profit from continuous operation ("-" for net loss)			
(2) Net profit from discontinuing operation ("-" for net loss)			
<b>VI. Net of tax of other comprehensive income</b>		-118,653,604.53	21,434,522.43
Net of tax of other comprehensive income attributable to owners of the parent company		-118,653,604.53	21,434,522.43
1. Other comprehensive income that cannot be reclassified into gains and losses subsequently			
(1) Changes in re-measurement of defined benefit plan			
(2) Other comprehensive income that cannot be reclassified into gains and losses under the equity method			
(3) Changes in fair value of other equity instruments investments			
(4) Changes in fair value of enterprise's own credit risk			
(5) Others			
2. Other comprehensive income to be reclassified into gains and losses subsequently		-118,653,604.53	21,434,522.43
(1) Other comprehensive income to be reclassified into gains and losses under the equity method			
(2) Changes in fair value of other debt investments			
(3) Gains and losses on changes in fair value of financial		-118,653,604.53	21,434,522.43
(4) Amount arising from reclassification of financial assets as Other comprehensive income			
(5) Gains and losses arising from reclassification of held-to-maturity investments as financial assets available for sale			
(6) Credit impairment reserves of other debt investments			
(7) Cash flow hedging reserves			
(8) Translation differences of financial statements			
(9) Others			
Net of tax of other comprehensive income attributable to minority			
<b>VII. Total comprehensive incomes</b>		-224,265,149.19	74,613,932.44
Total comprehensive income attributable to owners of the parent		-224,265,149.19	74,613,932.44
Total comprehensive income attributable to minority shareholders			
<b>VIII. Earnings per share:</b>			
Basic earnings per share			
Diluted earnings per share			

The notes to the financial statements on pages 17 to 152 form an integral part of the financial statements

The financial statements on pages 5 to 16 are signed by:

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:



# Parent company's statement of cash flows

Shandong Commercial Group Co., Ltd.

Unit: CNY

Item	Note	Jan. to Dec., 2020	Jan. to Dec., 2019
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		27,070,000.00	21,708,200.00
Net increase in deposits from customers and placements from corporations in the same industry			
Net increase in borrowings from the Central Bank			
Net increase in borrowings from other financial institutions			
Cash premiums received on original insurance contracts			
Net cash received from reinsurance business			
Net increase in deposits and investments from insurers			
Cash received from interest, handling charges and commissions			
Net increase in funds deposit			
Net increase in repurchase business funds			
Refunds of taxes and surcharges			
Cash received from other operating activities		18,157,828,737.57	15,246,868,918.97
<b>Sub-total of cash inflows from operating activities</b>		18,184,898,737.57	15,268,577,118.97
Cash paid for goods purchased and services received			
Net increase in loans and payments on behalf			
Net increase in deposits with Central Bank and interbank			
Cash paid of claims for original insurance contracts			
Net increase in funds lent			
Cash paid for interest, handling charges and commissions			
Cash paid on insurance policies			
Cash paid to and on behalf of employees		22,859,415.47	50,079,635.55
Cash paid for taxes and surcharges		5,172,699.62	6,660,180.83
Cash paid for other operating activities		10,760,320,718.67	13,478,600,425.76
<b>Sub-total of cash outflows from operating activities</b>		10,788,352,833.76	13,535,340,242.14
<b>Net cash flows from operating activities</b>	XV.4	7,396,545,903.81	1,733,236,876.83
<b>II. Cash flows from investing activities</b>			
Cash received from disposal of investments		252,790,816.41	407,565,681.08
Cash received from returns on investments		178,966,661.74	171,705,072.24
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		59,483.28	356,400.00
Cash inflow from disposal of subsidiaries and other operating units		-	
Cash received from other investing activities		3,385,164.19	303,811.17
<b>Sub-total of cash inflows from investing activities</b>		435,202,125.62	579,930,964.49
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		2,445,244.52	439,479.20
Cash paid for investments		1,770,202,316.80	1,269,158,378.10
Net increase in pledge loans		-	
Net cash paid to acquire subsidiaries and other business units		-	
Cash paid for other investing activities		1,094,786.82	241,340.30
<b>Sub-total of cash outflows from investing activities</b>		1,773,742,348.14	1,269,839,197.60
<b>Net cash flows from investing activities</b>		-1,338,540,222.52	-689,908,233.11
<b>III. Cash flows from financing activities</b>			
Cash received from investors			
Including: Cash received from issuing shares of minority shareholders by subsidiaries			
Cash received from borrowings		28,615,625,416.20	29,748,314,472.48
Cash received from other financing activities			455,400,000.00
<b>Sub-total of cash inflows from financing activities</b>		28,615,625,416.20	30,203,714,472.48
Cash paid for debt repayments		31,818,728,320.10	29,627,978,306.96
Cash paid for distribution of dividends and profits or payment of interest		1,893,512,855.40	1,936,228,207.40
Including: Dividends and profits paid by subsidiaries to minority shareholders			
Cash paid for other financing activities		521,178,531.72	197,000,000.00
<b>Sub-total of cash outflows from financing activities</b>		34,233,419,707.22	31,761,206,514.36
<b>Net cash flows from financing activities</b>		-5,617,794,291.02	-1,557,492,041.88
<b>IV. Effect of fluctuation in exchange rate on cash and cash equivalents</b>		-6,271,599.71	
<b>V. Net increase in cash and cash equivalents</b>		433,939,790.56	-514,163,398.16
Plus: balance of cash and cash equivalents at the beginning of the period		1,081,647,566.37	1,595,810,964.53
<b>VI. Balance of cash and cash equivalents at the end of the period</b>		1,515,587,356.93	1,081,647,566.37

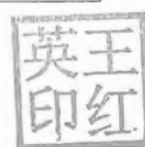
The notes to the financial statements on pages 17 to 152 form an integral part of the financial statements

The financial statements on pages 5 to 16 are signed by:

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:







## Shandong Commercial Group Co., Ltd.

Unit: CNY

Jan. to Dec., 2019														
Item	The owner's equity attributable to parent company											Minority equity	Total owners' equity	
	Paid-in capital (or stock)	Other equity instruments			Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Δ Provision for normal risks	Undistributed profit			Subtotal
		Preferred shares	Perpetual bond	Others										
I. Closing balance of prior year	1,220,000,000.00		6,300,178,377.36		495,579,855.12						-1,361,902,091.22	6,754,728,535.99		6,754,728,535.99
Add: Accounting policy changes														
Provisions' correction														
Others														
II. Balance at the beginning of current year	1,220,000,000.00		6,300,178,377.36		495,579,855.12						-1,361,902,091.22	6,754,728,535.99		6,754,728,535.99
III. Increases/ decreases in current year (fill " + " for increases)			-390,000,000.00		14,417,704.72						-391,800,261.13	-745,948,033.98		-745,948,033.98
1. Total comprehensive income											53,179,410.01	74,613,932.44		74,613,932.44
2. Capital contributed by owners and capital decreases												-375,582,295.28		-375,582,295.28
(1) Common stocks invested by shareholders														
(2) Holders of other equity instruments invested capital														
(3) The amount of share-based payments recorded in owners' equity														
(4) Others														
3. Extraction and use of special reserves														
(1) Extraction of special reserves														
(2) Use of special reserves														
4. Profit distribution														
(1) Appropriation of surplus reserve														
Including: Statutory provident fund														
Discretionary provident fund														
# Reserve fund														
# Enterprise development fund														
# Return of profits to investment														
(2) Extraction of general risk reserves														
(3) Profit distributed to owners (or stockholders)														
(4) Others														
5. Transfers within the owners' equity														
(1) Capital (or stock) transferred from capital surplus														
(2) Capital (or stock) transferred from surplus reserve														
(3) Recovery of losses by surplus reserve														
(4) Carrying forward the changes in defined benefit plan to retained earnings														
(5) Carrying forward other comprehensive income to retained earnings														
(6) Others														
V. Balance at the end of current year	1,220,000,000.00		5,910,178,377.36		509,997,559.84						-444,979,671.14	6,008,780,502.01		6,008,780,502.01

The notes to the financial statements on pages 17 to 152 form an integral part of the financial statements

The financial statements on pages 5 to 16 are signed by:

Accounting Principal: \_\_\_\_\_ Accounting Firm's Principal: \_\_\_\_\_

Accounting Principal:

**Legal representative of Enterprise:**

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## NOTES TO THE FINANCIAL STATEMENTS

From Jan. 1, 2020 to Dec. 31, 2020

(All amounts in RMB Yuan unless otherwise stated)

### Note 1 General

Shandong Commercial Group Co., Ltd. (the “Company” or the “Group”) was established on November 26, 1992. It is a state-owned sole proprietorship enterprise approved by the Shandong Provincial People’s Government and restructured by the former Shandong Provincial Department of Commerce. The Shandong Provincial People’s Government State-owned Assets Supervision and Administration Commission (hereinafter referred to as the “SASAC”) exercises the duties of the investor of the company. Unified Social Credit Code: 91370000163055647M; Registered Address: No.9777 Jingshi Road, Lixia district Jinan City; Registered Capital: RMB 1,220,000,000; Legal Representative: Gao Honglei.

According to the “Announcement on Transferring Provincial Infrastructure Funds for Provincial Famous Brand Products and Exhibition Centers into State-owned Capital” (Lufagai Investment [2006]No.617) which issued by Shandong Provincial Development and Reform Commission on June 22, 2006, the provincial Infrastructure fund loan of RMB 20 million and the corresponding owed interest of RMB 2,111,220.60 used by the Provincial Famous Brand Exhibition Center were all transferred to the Group’s state-owned capital. On June 23, 2006, the Company transferred the capital turnover of Shandong World Trade Center amounted to 80 million which paid by Finance Bureau in 2002 to the state capital, on the basis of the “Notice of Transferring the Financial Loans of the Group Corporation to State Capital” (Lucaiqi[2006]No.84) issued by Shandong Province Finance Bureau. On October 22, 2008, the Company transferred 100% state-owned investment and enjoyment of RMB222,795,790.58 of Shandong Inzone Group Investment Co., Ltd. on Jan.1,2008 to the national capital, according to “the Reply About the State-owned Property Rights of Shandong Inzone Group Investment Co., Ltd. Gratuitously Transferred to Shandong

Provincial Business Group Corporation". On December 29, 2008, the 50% equity of Shandong Silver Plaza Co., Ltd. held by Shandong World Trade Center was stripped and then held and exercised by the Company, in accordance with "Approval of Issues Concerning State-owned Equity Management of Shandong Silver Plaza Co., Ltd." issued by Shandong State-owned Assets Management Bureau (LuguoziQizi [1997] No. 55). The Company transferred the capital of the state to RMB 307,234,503.31, which is the 50% interest of Shandong Silver Plaza Co., Ltd. on December 31, 2008. After the change, the registered capital of the Company changed from RMB174.35 million to RMB800 million, while the capital reserve increased by RMB6,491,514.49. On December 13, 2011 the Group increased its capital by RMB 200 million using state-owned capital operating budget expenditure and the registered capital of the Company changed from RMB 800 million to RMB 1 billion, and on December 31, 2012, the capital increased by RMB 220 million, and changed from RMB 1 billion to RMB 1.22 billion according to the "Revision on Amending the <Articles of Shandong Commercial Group Co., Ltd.>" issued twice by Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission (Lu Guozi Planning Letter [2011] No. 170 and Lu Guozi Planning Letter [2011] No. 180 ), respectively. The Company has completed the registration of industrial and commercial changes in relation to the above capital increase.

On April 23, 2018, according to *Notice on Amending the <Articles of Shandong Commercial Group Co., Ltd. >* issued by Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission and Shandong Provincial Social Security Fund Council (Lu Guozi Law [2018] No. 32) , Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission contributed RMB 854 million accounting for 70 percent of the registered capital, Shandong Guohui Investment Co., Ltd contributed RMB 244 million accounting for 20 percent of the registered capital, Shandong Provincial Social Security Fund Council contributed RMB 122 million accounting for 10

percent of the registered capital. The Group has completed the registration of industrial and commercial changes in relation to the above events.

The Company's business scope: external investment and management within the scope of laws and regulations ( The projects which need to be approved legally can't start business activities until they are approved by related departments ).

#### **Note 2 The preparation of financial statements**

The Group's financial statements have been prepared on the basis of going-concern hypothesis and actual trade, in accordance with Enterprise Accounting Standards -Basic Standards issued by the Ministry of Finance of the People's Republic of China (the "Ministry of Finance") in February 2006, and specific accounting standards, application guidelines, explanation of the accounting standards and other relevant regulations issued and revised subsequently (hereinafter called as the "Enterprise Accounting Standards"). They have been prepared in compliance with the Complication Rules for Information Disclosure by Companies Offering Securities to the public No.15 - General Requirements of Financial Reporting (revised in 2014) formulated by the China Securities Regulatory Commission (hereinafter referred to as the "SFC") ,and based on the following significant accounting policies and accounting estimates.

#### **Note 3 Declaration on abiding by the Enterprise Accounting Standards**

The Group follows the requirements of Enterprise Accounting Standards in preparing financial statements, which authentically and completely reflect the Group's financial status as of December 31, 2020, and the operating results, cash flows of the year 2020 and other relevant information.

#### **Note 4 Major accounting policies and accounting estimates**

##### **4.1 Accounting period**

The accounting year starts on 1 January and ends on 31 December.

## 4.2 Reporting Currency and measurement attribute

The Company uses RMB as the standard currency, measured in accordance with the provisions of the accounting measurement. The company generally adopts the historical cost as the measurement attribute. When the specified amount of accounting elements is in line with the requirements of enterprise accounting standards, and can be obtained and reliably measured, the replacement cost, net realizable value, present value and fair value measurement shall be adopted.

## 4.3 Basis of accounting and principle of measurement

Cash in the Company's cash flow statement refers to cash on hand and deposits of that are readily available for payment. The cash equivalents of the cash flow statement refers to short-term (generally maturing within three months from acquisition), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

## 4.4 Foreign Currency Business

### 4.4.1 Foreign currency transaction

At the beginning of recognition, foreign currency transactions of the Company are translated into RMB amount by the spot exchange rate (Usually referring to the central parity of the day foreign exchange rate published by the People's Bank of China, similarly hereinafter) on the transaction day.

Foreign currency monetary items are translated at spot exchange rate on the balance sheet date. The difference of exchange is recorded into current profit or loss. However, the difference of exchange that is caused by foreign currency borrowings related to the asset of construction or production in accordance with capitalized conditions, shall be capitalized.

Foreign currency non-monetary items measured at historical cost are still



translated at spot exchange rate on the transaction day, and do not change its bookkeeping base currency amount.

#### 4.4.2 Translation method of financial statements denominated in foreign currency

The Company turns financial statements denominated in foreign currency of the overseas entities within the scope of the consolidation into financial statements denominated in RMB. The asset and liability items in the balance sheet shall be converted at the spot exchange rates prevailing on the balance sheet date. Except retained profit, the owners' equity items shall be converted at the spot exchange rates on the occurrence date. The income and expense items in the income statement shall be converted at the spot exchange rates on the date of occurrence of transaction. The difference arising from the conversion of financial statements denominated in foreign currency, solely reports under the owners' equity item in the balance sheet. Cash flow statement denominated in foreign currency shall be converted at the spot exchange rates of occurrence of cash flow. Exchange rate fluctuation is reconciling item of impact on the amount of cash, and solely reports in cash flow statement.

Converted difference in foreign currency statements related to overseas operations when they are handled shall be converted to the current profits and losses in proportion.

### 4.5 Financial Instruments

#### 4.5.1 Classification, recognition and measurement of financial assets and financial liabilities

##### 1) Classification of financial instruments:

Financial instruments refer to the contracts that give rise to both a financial asset of one entity and a financial liability or equity instrument of another entity, including: financial assets, financial liabilities and equity instruments. According to the purpose of acquiring financial assets and undertaking financial liabilities, Management classifies them into: Financial assets or financial liabilities measured at fair value



through current profit or loss, including financial assets or financial liabilities held for trading; held-to-maturity investments, receivables, and available-for-sale financial assets; other financial liabilities.

2) Recognition and measurement of financial instruments

a. the recognition base of financial assets or financial liabilities measured at fair value through current profit or loss:

Such financial assets or financial liabilities may be further classified into financial assets or financial liabilities held for trading and financial assets or financial liabilities directly designated under this category at the beginning of recognition. Financial assets or financial liabilities held for trading mainly refer to the stocks, bonds, funds held for sale in the near future, as well as financial liabilities that are not regarded as derivatives of effective hedging instruments or short-term repurchase; financial assets or financial liabilities directly designated under this category at the beginning of recognition mainly refer to the designation based on risk management and strategic investment needs, etc..

Measurement method:

Financial assets or financial liabilities measured at fair value through current profit or loss are initially recognized at fair value (net of cash dividends that have been declared but not yet released, or bond interest that has been due but not yet collected). The interest or cash dividends obtained during the holding period are recognized as investment income, and changes in fair value are recorded into the current profits and losses on the balance sheet date.

At the time of disposal, the difference between the fair value and the initially recorded amount is recognized as investment income, and at the same time the fair value change gains and losses are adjusted.

b. Held-to-maturity investments

Confirmation basis: refers to non-derivative financial assets such as fixed interest rate treasury bonds and floating interest rate corporate bonds purchased by the

company with a fixed maturity date, a fixed or recognizable return amount, and the company's clear intention and ability to hold to maturity.

Measurement method: The initial confirmation amount is the sum of the fair value (deducting bond interest that has reached the interest payment period but has not been received) and related transaction expenses at the time of acquisition.

During the period of holding, it shall be measured according to the amortized cost, and the interest income shall be calculated based on the actual interest rate method (if the difference between the actual interest rate and the nominal interest rate is small, according to the coupon interest rate) and be included in the investment income. The actual interest rate is determined at the time of acquisition and remains unchanged during the expected duration or applicable shorter period.

At the time of disposal, the difference between the obtained price and the book value of the investment is included in the investment income.

If a larger amount of held-to-maturity investments before the maturity date (larger amounts refer to the total amount before such investments are sold or reclassified) is sold or reclassified, the remaining invests should be reclassified as available-for-sale financial assets, and will no longer be classified as held-to-maturity investments during the current and subsequent two full fiscal years, with the following exceptions: sales or reclassifications close to the maturity date or redemption date of the investment (such as within three months prior to expiration), the change in market interest rate has no significant effect on the fair value of the investment; the remaining part of the investment is sold or reclassified after recovering almost all the initial principal amount of the investment according to the regular repayment or early repayment method stipulated in the contract; the sale or reclassification is caused by an independent matter that the company cannot control, is not expected to repeat, and is difficult to predict reasonably.

#### c. Receivables

Basis for confirmation: The creditor's rights such as accounts receivable due to

the sale of goods or provision of services, shall be initially recognized at the amount of the contract or agreement receivable from the purchaser.

Measurement method: the subsequent measurement is stated at amortized cost using the effective interest method.

When collected or disposed of, the differences between carrying values and receipts are charged to profit or loss.

d. Available-for-sale financial assets

Confirmation basis: Available-for-sale financial assets refer to the company's investment in an investee that does not have joint control or significant influence, and has no quotation in an active market, whose fair value cannot be reliably measured, financial assets which are not divided into financial assets at fair value through profit or loss, held-to-maturity investments, and assets receivables.

Measurement method: The initial recognition amount is the sum of the fair value (deducting cash dividends declared but not yet paid or bond interest that has not yet been received) and the relevant expenditures at the time of acquisition.

The interest or cash dividends obtained during the holding period are recognized as investment income. Changes in fair value are recognized in other capital reserve on the balance sheet date.

The difference between the receipts and the carrying amount of the financial asset when disposed is recognized in profit or loss; at the same time, the amount of changes recorded directly in the owner's equity is transferred out and included in the investment gains and losses.

e. Other financial liabilities

Other financial liabilities are measured at total of fair values and relevant expenditures initially and subsequently at amortized cost.

4.5.2 Determination and measurement of transfer of financial assets:

1) Determination criterion:

A financial asset is derecognized if the company has transferred almost all

risks and rewards of ownership, or it has neither transferred nor held almost all risks and rewards of ownership, but the control has been given up.

2) Measurement method:

a. Where a transfer of a financial asset in its entirety meets the criteria of termination, the difference between the two amounts below is recognized in profit or loss: ①Carrying amount of the financial asset transferred; ②The sum of the consideration received from the transfer and any cumulative gain or loss in the fair value that has been recognized directly in equity.

b. Partial transfer is measured when the conditions for de-recognition are satisfied: if the partial transfer of financial assets satisfies the de-recognition condition, the book value of the entire financial assets transferred shall be allocated between the derecognized part and the unconfirmed part according to their respective relative fair value. The difference between the following two amounts is recognized in profit and loss: ①Carrying amount of the derecognized part; ②The price of the derecognized part is equal to the sum of the amount of the derecognized part of the cumulative amount of changes in the fair value originally recorded directly in equity.

c. If the transfer of financial assets fails to meet the conditions for termination, the financial assets shall continue to be recognized and the receipts shall be recognized as a financial liability.

d. For the transfer of financial assets using the continuous involvement method, the company confirms a financial asset in accordance with the degree of continuous involvement in the transferred financial asset and confirms a financial liability at the same time.

4.5.3 Termination conditions of financial liabilities

The company derecognizes the financial liability (or part of it) when the underlying present obligation part (or part of it) is discharged.

4.5.4 Determination of fair value of financial assets and financial liabilities

1) If the financial assets or financial liabilities are with an active market, the fair

value is determined by the quoted price in the active market;

2) If there is no active market for financial instruments, the company uses valuation techniques to determine its fair value.

4.5.5 Test method for impairment of financial assets (excluding accounts receivable)

The company checks the book value of financial assets (excluding accounts receivable) on the balance sheet date. If there is any objective evidence showing impairment, provision for impairment is made.

1) Held-to-maturity investments: The impairment loss is calculated based on the difference between the book value and the present value of the estimated future cash flows. Specifically, the method of measuring the impairment loss of receivables is handled.

2) Available-for-sale financial assets:

When a severely decline in the fair value of an available-for-sale financial assets has occurred or can be regarded as non-temporary after considering all the factors comprehensively, the impairment loss shall be recognized. When an impairment loss of the financial asset available for sale is recognized, the cumulative loss generated from decline of fair value that had been recorded directly into the owners' equity shall be removed from the owners' equity and shall be recorded into the impairment loss. The accumulated loss transferred out equals the balance of the initial acquisition cost of available-for-sale financial assets less the recovered principal and amortized amount, the current fair value and the impairment loss that has been recognized in profit or loss.

If, after an impairment loss has been recognized on an available-for-sale financial asset, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Impairment losses on available-for-sale equity instrument investments

are reversed through equity when the equity instrument's value rises and are not reversed through profit or loss.

The objective evidence showing the impairment of a financial asset is an event that actually occurs after the initial recognition of the financial asset, affects the expected future cash flow of the financial asset, and the company can reliably measure the impact.

#### **4.6 Financial instruments (New) (implemented by Inzone Group Co., Ltd., Lushang Health Industry Development Co.,Ltd., subsidiaries of the Company, on January 1, 2019)**

##### **4.6.1 Classification and reclassification of financial instruments**

Financial instruments refer to the contracts that form one party's financial assets and other party's financial liabilities or equity instruments.

##### **(1) Financial assets**

The company classifies financial assets meeting the following conditions into financial assets measured at amortized cost: a. The company's business model of managing financial assets is to collect contract cash flow as the goal; b. The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount.

The company classifies financial assets meeting the following conditions into financial assets measured at fair value and the changes of which are included in other comprehensive income: a. The business model of the company's management of financial assets is to receive contract cash flow and sell the financial assets; b. The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount.



For non tradable equity instrument investment, the company can irrevocably designate it as a financial asset measured at fair value with its changes included in other comprehensive income at the initial recognition. The designation is made on the basis of a single investment and the relevant investment conforms to the definition of equity instrument from the perspective of the issuer.

Except for financial assets measured at amortized cost and financial assets measured at fair value with changes included in other comprehensive income, the company classifies them as financial assets measured at fair value with changes included in current profit and loss. At the time of initial recognition, if accounting mismatch can be eliminated or reduced, the company can irrevocably designate financial assets as financial assets measured at fair value with changes included in the current profit and loss.

When the Company changes the business model of managing financial assets, it will reclassify all affected related financial assets on the first day of the first reporting period after the change of business model, and the future applicable method will be used for accounting treatment since the self weight classification date, and no retroactive adjustment will be made to the previously recognized gains, losses (including impairment losses or gains) or interests.

## (2) Financial liabilities

Financial liabilities are classified into: financial liabilities measured at fair value through current profit and loss; financial liabilities formed by transfer of financial assets that do not meet the conditions for derecognition or continue to be involved in the transferred financial assets; financial guarantee contracts that do not belong to the first two situations, and loan commitments that do not belong to the first situation and loan at a lower than market interest rate; and Financial liabilities measured at amortized cost. All financial liabilities are not reclassified.

### 4.6.2 Measurement of financial instruments

The company's financial instruments are initially recognized at fair value. For

financial assets and financial liabilities measured at fair value with changes included in current profits and losses, relevant transaction costs are directly included in current profits and losses; for other types of financial assets or financial liabilities, relevant transaction costs are included in the initially recognized amount. For accounts receivable or notes receivable arising from the sale of products or the provision of services, which do not include or take into account significant financing components, the company shall take the expected amount of consideration that it is entitled to receive as the initial recognition amount. Subsequent measurement of financial instruments depends on their classification.

(1) Financial assets

a. Financial assets measured at amortized cost. After initial recognition, such financial assets are measured at amortized cost using the effective interest method. Gains or losses arising from financial assets measured at amortized cost and not belonging to any hedging relationship shall be included in the current profits and losses when derecognition, reclassification, amortization or impairment is recognized in accordance with the effective interest method.

b. Financial assets measured at fair value through current profit or loss: After initial recognition, such financial assets (except for some financial assets belonging to hedging relationship) are subsequently measured at fair value, and the profits or losses (including interest and dividend income) generated are included in the current profit and loss.

c. Debt instrument investment measured at fair value with changes included in other comprehensive income. After initial recognition, such financial assets are subsequently measured at fair value. The interest, impairment loss or gain calculated by the effective interest method and exchange gain or loss are included in the current profit and loss, and other gains or losses are included in other comprehensive income. When the recognition is terminated, the accumulated gains or losses previously included in other comprehensive income shall be transferred out of other

comprehensive income and included in the current profit and loss.

d. Non tradable equity instrument investment designated as fair value measurement and its change included in other comprehensive income. After initial recognition, such financial assets are subsequently measured at fair value. Except that the dividends (except for the part of investment cost recovery) obtained are included in the current profit and loss, other relevant gains and losses are included in other comprehensive income, and will not be transferred into the current profit and loss in the future.

(2) Financial liabilities

a. Financial liabilities measured at fair value through current profit or loss. Such financial liabilities include transactional financial liabilities (including derivatives belonging to financial liabilities) and financial liabilities designated to be measured at fair value with changes included in current profits and losses. After initial recognition, such financial liabilities are subsequently measured at fair value. Except for those related to hedge accounting, gains or losses (including interest expenses) arising from changes in fair value of transactional financial liabilities are included in current profits and losses. Where a financial liability is designated to be measured at fair value through profit or loss, the amount of the change in the fair value of the financial liability caused by the change in the credit risk of the enterprise itself shall be included in other comprehensive income, and the change in other fair value shall be included in the profit or loss of the current period. If the impact on the credit risk change of the financial liability is included in other comprehensive income, which will cause or expand the accounting mismatch in the profit and loss, the company will record all the gains or losses of the financial liability into the current profit and loss.

b. Financial guarantee contract (loan commitment) liabilities. The financial guarantee contract (loan commitment) liabilities shall be measured in accordance with the higher of the loss reserve amount determined according to the impairment principle of financial instruments and the balance of the initially recognized amount after

deducting the accumulated amortization amount determined in the Accounting Standards for Business Enterprises No. 14 -Income.

c. Financial liabilities measured at amortized cost. After initial recognition, such financial liabilities are measured at amortized cost using the effective interest method.

4.6.3 The company's recognition method for the fair value of financial instruments

If there is an active market financial instrument, its fair value shall be determined by the quotation in the active market; if there is no active market financial instrument, its fair value shall be determined by valuation technology. Valuation technology mainly includes market method, income method and cost method. In limited circumstances, if the recent information used to determine the fair value is insufficient, or the possible estimates of the fair value are widely distributed, and the cost represents the best estimate of the fair value within the range, the cost can represent the appropriate estimate of the fair value within the range. The company uses all information about the performance and operation of the investee available after the initial recognition date to determine whether the cost represents the fair value.

4.6.4 Recognition basis and measurement method of transfer of financial assets and financial liabilities

(1) Financial assets

The financial assets of the company shall be derecognized if they meet one of the following conditions: a. The contractual right to receive the cash flow of the financial asset is terminated; b. the financial asset has been transferred, and the company has transferred almost all risks and rewards of the ownership of the financial asset; c. The financial asset has been transferred, although the company has neither transferred nor retained almost all rewards of the ownership of the financial asset, but has not retained the control over the financial asset.

If the company has neither transferred nor retained almost all the remuneration for the ownership of the financial assets, and has retained the control over the financial

assets, it shall recognize the relevant financial assets according to the degree of continuous involvement in the transferred financial assets, and recognize the relevant liabilities accordingly.

If the transfer of financial assets meets the conditions for derecognition as a whole, the difference between the following two amounts shall be included in the current profit and loss: a. the book value of the transferred financial assets on the date of derecognition; b. the consideration received from the transfer of financial assets and the amount of derecognition corresponding to the accumulative amount of changes in the fair value originally included in other comprehensive income (the financial assets involved in the transfer are Financial assets classified as financial assets measured at fair value with changes included in other comprehensive income).

If the partial transfer of financial assets meets the conditions for derecognition, the overall book value of the transferred financial assets shall be apportioned between the derecognized part and the non derecognized part according to their respective fair values on the transfer date, and then the difference between the following two amounts shall be included in the current profits and losses: a. the book value of the derecognized part on the derecognized date; b. the derecognized part The sum of the consideration received in part and the amount corresponding to the derecognized part of the accumulative amount of changes in fair value originally included in other comprehensive income (the financial assets involved in the transfer are classified as financial assets measured at fair value and the changes are included in other comprehensive income).

When the non tradable equity instrument investment designated by the company as fair value measurement and its changes are included in other comprehensive income is derecognized, the accumulated gains or losses previously included in other comprehensive income are transferred out of other comprehensive income and included in retained earnings.

## (2) Financial liabilities

When the current obligation of a financial liability (or part of it) has been discharged, the company shall derecognize the financial liability (or part of it).

When a financial liability (or part of it) is derecognized, the company shall record the difference between its book value and the consideration paid (including non cash assets transferred out or liabilities assumed) into the current profit and loss.

4.6.5 The determination method and accounting treatment method of expected credit loss

(1) Determination method of expected credit loss

On the basis of expected credit loss, the company conducts impairment accounting and recognizes loss reserves for financial assets (including receivables) measured at amortized cost, financial assets (including receivables financing) classified as financial assets measured at fair value with changes included in other comprehensive income, lease receivables.

The company assesses whether the credit risk of relevant financial instruments has increased significantly since the initial recognition on each balance sheet date. The process of credit impairment of financial instruments is divided into three stages. Different accounting treatment methods are adopted for the impairment of financial instruments in different stages: (1) In the first stage, if the credit risk of the financial instrument has not increased significantly since the initial recognition, the company will measure the loss reserve according to the expected credit loss of the financial instrument in the next 12 months, and calculate the interest income according to its book balance (i.e. without deducting the impairment reserve) and the actual interest rate; (2) In the second stage, if the credit risk of a financial instrument has increased significantly since its initial recognition, but no credit impairment has occurred, the company will measure the loss reserve according to the expected credit loss of the entire duration of the financial instrument, and calculate the interest income according to its book balance and actual interest rate; (3) In the third stage, in case of credit impairment after initial recognition, the company will measure the loss reserves



according to the expected credit loss of the whole duration of the financial instrument, and calculate the interest income according to its amortized cost (book balance minus the provision for impairment accrued) and the actual interest rate.

For financial instruments with low credit risk on the balance sheet date, the company can directly make the assumption that the credit risk of the instrument has not increased significantly since the initial recognition without comparing it with the credit risk at the time of initial recognition.

If the default risk of a financial instrument is low, the debtor has a strong ability to perform its contractual cash flow obligations in the short term, and even if there are adverse changes in the economic situation and operating environment in a long period of time, it may not necessarily reduce the borrower's ability to perform its contractual cash flow obligations, the financial instrument is considered to have a lower credit risk.

When measuring the credit impairment of financial instruments, the company assesses whether the credit risk significantly increases considering the following factors: (1) Whether the internal price index caused by the change of credit risk changes significantly; (2) If the existing financial instrument is generated or issued as the source of a new financial instrument on the reporting date, whether the interest rate or other terms of the financial instrument have changed significantly; (3) Whether the external market indicators of credit risk of the same financial instrument or similar financial instrument with the same expected duration have changed significantly; (4) Whether the external credit rating of financial instruments actually or expected changes significantly; (5) Whether the actual or expected internal credit rating of the debtor is lowered; (6) Adverse changes in business, financial or economic conditions that are expected to result in a significant change in the ability of the debtor to meet its debt service obligations; (7) Whether there is any significant change in the actual or expected operating results of the debtor; (8) Whether the credit risk of other financial instruments issued by the same debtor increases significantly; (9) Whether there is any

significant adverse change in the regulatory, economic or technological environment of the debtor; (10) Whether there is a significant change in the value of collateral as a debt mortgage or the quality of guarantee or credit enhancement provided by a third party; (11) Whether there is a significant change in the economic motivation that is expected to reduce the debtor's repayment according to the time limit stipulated in the contract; (12) Whether the company's credit management methods for financial instruments have changed, etc.

When one or more events have an adverse impact on the expected future cash flow of a financial asset, the financial asset becomes a financial asset with credit impairment. The objective evidence of credit impairment mainly includes: (1) Major financial difficulties of the issuer or the debtor; (2) The debtor violates the terms of the contract, defaults or delays in paying interest or principal, etc., which is more than 90 days overdue (including); (3) The creditor gives the debtor concessions that will not be made in any other circumstances due to economic or contractual considerations related to the debtor's financial difficulties; (4) The debtor is likely to go bankrupt or undergo other financial restructuring; (5) The active market of the financial assets disappears due to the financial difficulties of the issuer or the debtor; (6) Purchase or source a financial asset at a substantial discount that reflects the fact that a credit loss has occurred.

## (2) Accounting treatment of expected credit loss

In order to reflect the change of credit risk of financial instruments since the initial recognition, the company remeasures the expected credit loss on each balance sheet date, and the increase or reversal amount of loss reserves resulting therefrom shall be included in the current profit and loss as impairment loss or gain, and the book value of the financial assets listed in the balance sheet or included in the forecast according to the type of financial instruments Liabilities (loan commitment or financial guarantee contract) or debt investments included in other comprehensive income (measured at fair value and its change included in other comprehensive

income).

For financial assets other than notes receivable, accounts receivable and other receivables, such as debt investments, other debt investments, long-term receivables other than lease receivables, loan commitment and financial guarantee contract, the company measures loss reserves in accordance with the general method, namely "Three-stage" model.

#### 4.7 Accounts receivable

4.7.1 The confirmation standard for bad debts: the receivables of the Group (including accounts receivable and other receivables and other receivables, the same below) meet one of the following conditions are confirmed as bad debts:

1) When the debtor has gone bankrupt or died, the receivables are still unrecoverable after his bankruptcy property or estate is paid off.

2) The debtor has not fulfilled its obligation to pay within a relatively long period of time, and there is ample evidence that it is impossible to recover or withdraw.

4.7.2 Accounting method for bad debt provision: The Group adopts the allowance method to calculate bad debts.

4.7.3 The method of reselling bad debts: For receivables that cannot be recovered, it will be regarded as a bad debt loss after approval and written off against bad debt provision.

4.7.4 Provision method and accrual ratio of bad debt:

For a single receivable with significant amount, a separate impairment test is conducted at the end of the period. If there is objective evidence that it has been impaired, the impairment loss shall be recognized according to the difference between the current value of its future cash flow and its book value, and the provision for impairment shall be made as well. For accounts receivable that are not individually significant, and for individually significant receivables that have not been impaired after a single test, the company's current situation is based on the risk of loss from

similar or similar receivables in previous years. Determine the proportion of receivables for bad debts.

For other receivables (including bills receivable, prepayments, interest receivable, long-term receivables, etc.), where there is conclusive evidence that there is a significant difference in their recoverability, provision for bad debts is made using the individual recognition method.

The amount corresponding to the companies included in the scope of the consolidated statement is generally not withdrawn from provision for bad debts.

**4.8 Contract assets and Contract liabilities (implemented by Inzone Group Co., Ltd., Lushang Health Industry Development Co.,Ltd., subsidiaries of the Company, on January 1, 2020)**

**4.8.1 Contract assets**

The company lists as contract assets the right to receive consideration for goods or services transferred to customers (and the right depends on factors other than the passage of time). The provision for impairment of contract assets is made in accordance with the method of expected credit loss. For contract assets that do not contain significant financing components, the company adopts simplified method to measure loss reserves. For the contract assets with significant financing components, the company measures the loss reserves according to the general method.

In case of impairment loss of contract assets, the "asset impairment loss" shall be debited according to the amount to be written down, and the provision for impairment of contract assets shall be credited; When the asset impairment reserves withdrawn are reversed, the opposite entry shall be made.

**4.8.2 Contract liabilities**

The company shall list the obligation of transferring goods or providing services to customers for the consideration received or receivable from customers as contract

liabilities.

#### 4.9 Confirmation and Measurement of Inventory

##### 4.9.1 Inventory classification

Inventories refer to the materials or materials consumed by enterprises during their daily activities, such as finished products or commodities held for sale, products in process of production, or production processes or labor services. The company's inventory is mainly divided into raw materials, products, inventory, and turnover materials.

##### 4.9.2 Valuation of acquired and dispatched inventories

The inventories acquired are measured by actual costs, and consumed and dispatched are measured by weighted average method. The low-value consumables are amortized at the time of use.

4.9.3 Stock inventory system: The Company uses the perpetual inventory system for inventory.

4.9.4 Recognition criterion and withdrawal method of provision for inventory devaluation:

Inventories are measured by the principle of the lower one between cost and net realizable value on the balance sheet date.

The net realizable value of inventory that can be directly used for sale, such as finished products, commodities and materials for sale, is determined by the estimated selling price of such inventories minus the estimated selling expenses and related taxes. The net value of the net realizable value of the stocks of materials held, etc. shall be determined based on the estimated selling price of the finished products produced minus the estimated cost to be incurred upon completion, estimated selling expenses and related taxes. For those inventories held for sales or labor contracts, the net realizable values are based on the contract prices and if the inventories held are more than those already ordered, the net realizable values of the excess

are with reference to the market prices.

Inventory falling price reserves is generally made by item, but made by class for those inventories of large amounts and low values. For those items that are produced and sold with the same ultimate use or purpose and in the same region, and are difficult to separate from other items, provision is made by total group of inventories.

Preparation of provision for inventory devaluation is made if the cost of inventory is higher than the net realizable value on the balance sheet. If factors that lead to inventories providing for in the prior periods have disappeared, the provision are written back and reversed. A reversal of an impairment loss will not result in the assets carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years. The reversal is charged to the profit or loss.

#### **4.10 Assets held for sale**

##### **4.10.1 The basis of the assets classified as held for sale**

Any non-current assets or disposal group shall be classified as held for sale if the following criteria are met:

①According to the similar transactions for selling such assets or disposal group in practice, the assets must be available for immediate sale under current condition.

②The sale is highly probable with decision made on a probable selling proposal and the firm purchase commitment has been obtained, the sale is expected to be completed within one year. Certain regulations request that approvals must be given by relevant authority or supervision regulator before the assets can be sold.

The confirmed purchase commitment refers to the legally binding purchase agreement signed by the company and other parties. The agreement includes important terms such as the transaction price, time, and severe penalties for breach of contract, so it is extremely unlikely that there will be a major adjustment or revocation of the



agreement.

#### 4.10.2 Accounting methods for assets held for sale

Prior to the assets initially classified as held for sale or disposal group, the carrying amounts of the assets shall be measured in accordance with applicable accounting standards. The Company shall recognize an impairment loss and account it in to income statement for the current period, for any initial or subsequent write-down of the asset(or disposal group) to its fair value less costs to sell if the carrying amount is higher than its fair value less costs to sell. In the meantime, provision for assets impairment shall be made.

The Company shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset and shall reverse the impairment to the extent that previously recognized when being classified as held for sale, the revisable amount is recognized in the income statement for the period. Any impairment from the period when the assets are not classified as held for sale cannot be reversed.

The impairment loss recognized for a disposal group shall reduce the carrying amount of goodwill of disposal group first, and then reduce the carrying amount of the non-current assets based on its proportion on the book.

The Company shall recognize a gain for any subsequent increase in fair value less costs to sell of a disposal group and shall reverse the impairment to the extent that previously recognized when being classified as held for sale, in accordance with applicable measuring standards, the revisable amount is recognized in the income statement for the period. Any impairment from the period when the assets are not classified as held for sale and reduced goodwill cannot be reversed.

For any subsequently reversed amount, after the impairment loss is recognized for held for sale disposal group, the Company shall increase the carrying amount of disposal group based on the proportion of carrying amount of non-current assets excluding goodwill.

Non-current assets classified as held for sale or disposal group shall not be

depreciated or amortized, interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

When the Company derecognizes the held for sale assets or disposal group, the remaining unrecognized gain or loss shall be accounted in the income statement.

When held for sale assets or disposal group cannot meet the criteria for held for sale classification so that they are not recognized as held for sale or non-current asset will be removed from disposal group, they shall be measured at the lower of the following amounts: (1) carrying amount of assets prior to it classified as held for sale, which is the amount after depreciation, amortization or impairment adjustment as it had not been classified as held for sale; (2) recoverable amount.

#### **4.11 Recognition and measurement of investment properties**

##### **4.11.1 Types and measurement models of investment properties**

The investment properties in the Company comprise buildings leased out under operating leases, land leased out under operating leases and land held for long-term capital appreciation.

The Company's investment properties is initially measured at cost and subsequently measured at fair value.

##### **4.11.2 Accounting policies based on fair value model**

The Company's investment properties adopts the fair value model for subsequent measurement, without depreciation or amortization, and adjusts its book value based on the fair value of the investment properties on the balance sheet date. The difference between the fair value and the original book value is included in the current profit and loss, and the impact of the deferred income tax assets or deferred income tax liabilities is considered.

When the investment properties measured by the fair value model is converted into the self use real estate, the fair value on the date of conversion shall be taken as the book value of the self use real estate, and the difference between the fair value and

the original book value shall be included in the current profit and loss.

When the self use real estate or inventory is converted to the investment properties measured by the fair value mode, the investment properties shall be valued according to the fair value on the date of conversion. If the fair value on the date of conversion is less than the original book value, the difference shall be included in the current profit and loss; if the fair value on the date of conversion is greater than the original book value, the difference shall be included in the owner's equity.

The Investment properties that has been measured by fair value model shall not be changed from fair value model to cost model.

When the investment properties is disposed, or permanently withdrawn from use, and it is expected that no economic benefits can be obtained from its disposal, the recognition of the investment properties shall be terminated. The disposal income from the sale, transfer, scrap or damage of the investment properties shall be included in the current profit and loss after deducting its book value and relevant taxes.

#### **4.12 Long-term equity investments**

##### **4.12.1 The determination of investment costs**

1) Long-term equity investments obtained from a business combination under common control

The company uses the equity combination method to determine the cost of business combination for a business combination under common control.

If the combining party makes payment in cash, transfers non-cash assets, bears debts or issues equity securities as the consideration for the business combination, the share of owners' equity of the acquire obtained on the combination date in the book value of the ultimate controller's consolidated financial statement is recognized as the initial cost of the long-term equity investments. Accounting to the difference between the initial cost of the long-term equity investments and the book value of consideration paid for the combination or total par value of shares issued, capital reserve (capital

premium or equity premium) is adjusted; if capital reserve (capital premium or equity premium) is insufficient to cover the difference, the remaining amount shall be charged against retained earnings. The direct expenses related to the combination, including the audit fees, evaluation fees, and legal service fees paid for the combination, shall be recognized in the profits and losses of the current period when they occur.

The cost of the long-term equity investments formed by the combination under common control shall be recognized in accordance with the share of the net assets obtained from the evaluation of the subsidiary, if the subsidiary company adjusts its book value according to the value of assets and liabilities determined according to the restructuring. The difference between the cost and the carrying amount of the consideration paid is adjusted to the owner's equity.

2) Long-term equity investments obtained from business combination not under common control

The company adopts the purchase method to determine the combination cost for the controlling combination not under common control and uses the determined combination cost as the initial investment cost of the long-term equity investments. The combination cost includes the assets paid, the liabilities incurred or assumed, the fair value of the issued equity securities, and the sum of the transaction costs of the issued equity securities or debt securities for the acquisition of the controlling power.

The purchaser shall be accounted for in the profits and losses of the current period when it occurs as an intermediary, such as auditing, legal services, assessment and consulting, and other related administrative expenses incurred for the business combination.

For a business combination achieved through multiple transactions in stages, its business combination cost is the sum of the costs of each individual transaction. When absorbing merger are adopted, the balance of the business combination costs greater than the fair value of the identifiable net assets of the acquire is recognized as goodwill

in the individual financial statements; when control merger is adopted, if the amount of the combination costs is greater than the fair value of the identifiable assets and liabilities, goodwill shall be recognized when the consolidated financial statements are prepared; and the difference between the combined costs less than the fair value of the identifiable net assets of the acquire obtained in the combination shall be included in the profit or loss of the current period.

### 3) Long-term equity investments obtained by other methods

The initial costs of long-term equity investments obtained by payments of cash shall be the purchase prices actually paid.

The initial costs of long-term equity investments obtained by equity securities shall be stated at their fair values (excluding the declared but undisbursed cash dividends or profits received from the invested entity).

The initial costs of long-term equity investments invested by an investor shall be the value agreed in an investment contract or agreement, unless the value stipulated in the contract or agreement is unfair.

If the fair value of the non-monetary assets exchangeable with commercial nature and the assets exchanged or assets exchanged can be reliably measured, the long-term equity investments exchanged for the non-monetary assets will be based on the fair value of the assets exchanged to determine its initial value, unless there is conclusive evidence that the fair value of the assets exchanged is more reliable; if the above prerequisites are not met, the initial cost shall be stated by the book value of the assets exchanged out and the related taxes and fees payable.

For long-term equity investments acquired through debt restructuring, the initial investment cost is determined on the basis of fair value.

#### 4.12.2 Subsequent measurement and recognition of profit and loss

The company applies cost method to account for the long-term equity investments that the investee can be controlled; Long-term equity investments in associates and joint ventures are accounted for under the equity method. When

accounting for long-term equity investments by the equity method:

1) If the initial cost of a long-term equity investment is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted; if the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

2) After the long-term equity investments is obtained, the company shall recognize the investment profit and loss and adjust the book value of the long-term equity investments in accordance with the share of the net profit or loss of the invested entity that should be enjoyed or shared. The share of net profits and losses of the invested entity that should be enjoyed or shared shall be confirmed after the net profits of the invested company adjusted, based on the fair value of the identifiable assets of the invested entity at the time of acquisition, and offset the unrealized gains and losses calculated on the basis of the proportion of shares belong to the company arising from the internal transactions with the associated venture and the joint ventures (but if internal transaction losses are not realized, they shall be fully recognized).

3) The recognition of the net loss incurred by the invested entity is limited to the book value of the long-term equity investments and other long-term equity that essentially constitutes the net investment of the investee, and shall be reduced to zero, unless additional losses shall be charged according to the stipulation in the contract or agreement.

4) The portion of the profit or cash dividend declared to be distributed by the invested entity shall be calculated and the book value of the long-term equity investments shall be correspondingly reduced.

5) For other changes in the owner's equity of the invested entity other than net



profit or loss, if the shareholding ratio remains unchanged, the company calculates the portion of the long-term equity investments that is to be enjoyed or assumed in accordance with the proportion of shares held and adjusts the book value of the long-term equity investments, and reduces capital reserve simultaneously.

4.12.3 The basis of determine for joint control and significant influence on the invested company

1) Judgment basis for joint control:

Joint control refers to the common control of an economic activity in accordance with the contract. Generally, when the joint venture is established, the parties to the joint venture stipulate in the investment contract or agreement that in the process of making the important financial and production and operation decisions of the joint venture, the decisions must be agreed upon by all the parties to the joint. When determining whether to constitute a common control, the following three conditions are generally used as the basis for the determination:

a. No joint venture party can independently control the production and business activities of the joint venture.

b. Decisions on the basic business activities of joint ventures require the consent of the joint venture parties.

c. Each joint venture may appoint one of the joint venture parties through the contract or agreement to manage the daily activities of the joint venture. However, it must exercise management power within the financial and operating policies agreed by all parties.

2) Judgment basis of significant influence:

Significant influence refers to the right to participate in decision-making on the financial and operating decisions of an enterprise, but it cannot control or jointly control the formulation of these policies with other parties. In determining whether there is significant influence, the following five conditions are generally used as a basis for judgment:

a. There are representatives of the investee company's board of directors or similar authorities.

b. Participate in the policy development process of the invested entity, including the formulation of dividend distribution policies.

c. Significant transactions occur with the invested entity, which in turn may affect the decision of the invested entity on production and operations.

d. Dispatch management personnel to the invested entity.

e. Provide key technologies to the investee.

#### 4.12.4 Methods of impairment test and provision for impairment

1) The company estimates the recoverable amount of long-term equity investments in subsidiaries, joint ventures, and associates on the balance sheet date. If the recoverable amount is lower than the book value, the company recognizes the impairment loss. The recoverable amount is determined by the higher of the net amount of the fair value of the assets minus the disposal expenses and the present value of the future cash flow of the assets. For those investments that do not have joint control or significant effect, that have no quotation in active markets and whose fair values cannot be reliably estimated, impairment losses are determined based on the difference between the carrying amount and present value of estimated future cash inflows discounted by the asset return rate in the similar financial assets market. The impairment loss is recognized in the current profit and loss, and provision for impairment is also made.

Once the impairment provision for long-term equity investments is recognized, it cannot be reversed.

#### 2) Goodwill depreciation preparation

Goodwill due to business combination is performed for impairment annually, and the company determines whether to make provision for impairment according to the test conditions. Once the impairment loss is confirmed, it cannot be reversed.

### 4.13 Confirmation and Measurement of Fixed Assets

#### 4.13.1 Confirmation condition of fixed assets

Fixed assets refer to the tangible assets held for the purpose of selling commodities, providing labor service, renting or business management, and having a useful life of more than one year.

1) The Company recognizes the fixed assets when they meet the following conditions:

a. The economic benefits associated with the fixed assets are likely to flow into the company;

b. The cost of the fixed asset can be reliably measured.

2) Initial measurement of fixed assets:

Fixed assets are initially measured at the actual cost of acquisition and taking into account the impact of the estimated cost of disposal. If the purchase price of a fixed asset exceeds the normal credit terms for deferred payment and is essentially of a financing nature, the cost of the fixed asset is determined on the basis of the present value of the purchase price. The difference between the actually paid price and the present value of the purchase price shall be included in the current profit and loss within the credit period except for the capitalization.

3) Subsequent measurement of fixed assets: All fixed assets shall be depreciated unless the fixed assets had been fully depreciated and are still being used and land is separately measured.

Straight-line depreciation method is adopted by the Group. The depreciation of fixed assets with reduced value shall be calculated according to the amount of reduced value.

4.13.2 The estimated useful life, estimated net residual value rate and annual depreciation rate are as follows:

Categories	Useful life	Depreciation rate%	Residual rate%
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Categories	Useful life	Depreciation rate%	Residual rate%
Property and plant	10-40	2.38—9.50	5
Equipment	5-20	4.75—19.00	5
Transportation	4-10	9.50—23.75	5
Professional equipment	5-10	9.50—19.00	5
Others	3-10	9.50—31.67	5

The Group should review the estimated useful life, estimated net residual value and depreciation method at the end of each year. If any change has occurred, it shall be regarded as a change in the accounting estimates.

#### 4.13.3 Confirmation standards and accrual methods for impairment of fixed assets

On the balance sheet date, if there are indications that the fixed assets are impaired, provision for impairment of fixed assets shall be made in accordance with the method described in Note 4 (15) of this financial statement.

#### 4.13.4 Recognition basis and valuation method of financing lease fixed assets

1) It is recognized as a finance lease if it meets one or more of the following criteria:

a. At the expiration of the lease term, ownership of the leased assets is transferred to the lessee;

b. The lessee has the option to purchase the leased asset. The purchase price is expected to be much lower than the fair value of the leased asset when the option is exercised. Therefore, the lessee will be able to reasonably determine that the lessee will exercise this option;

c. Even if the ownership of the assets is not transferred, the lease period accounts for the majority of the useful life of the leased assets (75% or more);

d. The present value of the minimum lease payment on the lease start date is almost equal to the fair value of the leased asset on the lease start date (90% or more); the present value of the minimum lease receipt amount of the lessor on the lease start

date is almost equivalent to the fair value of the leased assets on the lease start date (90% or above);

e. The leased asset is of a special nature. Only the lessee can use it if it is not greatly modified.

2) Fixed assets financed by lease are accounted for at the lower of the fair value of the leased assets on the lease start date and the present value of the lowest lease payments, and are depreciated according to the depreciation policy of the self-owned fixed assets. If it is reasonably certain that the ownership of the leased asset will be obtained when the lease expires, depreciation will be made within the useful life of the leased asset; if it cannot be reasonably determined that the ownership of the leased asset can be obtained when the lease expires, it shall be included in the shorter life of the lease term and the useful life of the leased asset.

#### **4.14 Confirmation and measurement of construction in progress**

4.14.1 Construction in progress refers to the necessary expenses incurred before the acquisition or construction of the asset to its intended use status, including the cost of materials used for construction, labor costs, relevant taxes and fees payable, the borrowing costs to be capitalized, and the expenses to be amortized. Indirect costs, etc.

##### **4.14.2 Conversion date of transfer to fixed assets:**

Constructions in progress are carried down to fixed assets on their actual costs when completing and achieving estimated usable status. The fixed assets that have been completed and reached estimated usable status but have not yet been through completion and settlement procedures are charged to an account according to their estimate values; adjustment will be conducted upon confirmation of their actual values.

##### **4.14.3 Impairment:**

On the balance sheet date, if there is evidence that indicates the existence of asset impairment, provisions for impairment of construction in progress shall be made

according to the method described in Note 14(15) of this financial statement.

#### **4.15 Confirmation and Measurement of Intangible Assets**

##### **4.15.1 Initial measurement of intangible assets**

Intangible assets are initially measured at the cost of acquisition.

##### **4.15.2 Service life and amortization of intangible assets**

The useful of the intangible assets derived from contractual rights or other legal rights shall not exceed the duration of the contractual rights or other legal rights. If the contractual rights or other legal rights are extended at the time of expiration due to the renewal of the contract, and there is evidence that the company's renewal does not require a large amount of cost, the renewal period shall be included in the service life. The useful life of the intangible assets without a clear contract or law is judged by the comprehensive factors of the company (such as employing the relevant experts to demonstrate, compare with the same industry, the historical experience of the enterprise, etc.).

An intangible asset with a finite useful life is amortized over the useful life in accordance with the expected realization of the economic benefits associated with the intangible asset. If it cannot be reliably determined, the straight-line method of amortization is used. An intangible asset with an indefinite useful life is not amortized during the holding period. However, the useful life of the intangible asset is reviewed annually and an impairment test is conducted.

##### **4.15.3 Research and development expenses**

The internal research and development project expenditures are divided into research stage expenditures and development stage expenditures. Expenses of the research stage refer to the expenses incurred in the original planned investigation stage for acquiring and understanding new scientific or technological knowledge, and should be included in the current profit and loss when occurred. Development expenses is the expenditure that the company applies the research or other knowledge to a plan or



design before a commercial production or use is carried out to produce new or substantial improvements in materials, devices, and products, etc. Only when the following conditions are met can the capitalization of related expenses be recognized as intangible assets:

- (1) It is technically feasible to complete the intangible assets so that they can be used or sold;
- (2) It is intended to finish and use or sell the intangible assets;
- (3) The method that the intangible assets generate economic benefits, including existence of a market for products produced by the intangible assets or for the intangible assets themselves, shall be proved. Or, if to be used internally, the usefulness of the assets shall be proved;
- (4) Adequate technical, financial, and other resources are available to complete the assets, and the company has the ability to use or sell the assets;
- (5) The expenditures attributable to the intangible assets during their development phase can be reliably measured.

4.15.4 The recognition criteria and methods for provisions for impairments of intangible assets:

At the balance sheet date, if there are indications that intangible assets have been impaired, provision for impairment of intangible assets shall be made according to the method described in Note 4. (15).

#### **4.16 Determination of asset impairment**

The Company's asset impairment, not including inventory, equity instruments that have no quotation in an active market and fair value cannot be reliably measured, investment real estate measured at fair value, consumable biological assets, assets formed by construction contracts, deferred income tax assets, financing the leaseholder's unguaranteed residual value and financial assets, are determined as follows:

#### 4.16.1 Impairment test

At the balance sheet date, the Company assesses whether there is an indication that the assets may be impaired. Goodwill generated by business combination and intangible assets with indefinite useful life shall be tested for impairments every year, whether or not there are indications of impairments. If there are following indications, the impairments of assets may occur:

- 1) The market price of the asset has fallen dramatically in the current period, and its decline is significantly higher than the estimated decline due to time lapse or normal use;
- 2) The economic, technical or legal environment in which the Company operates and the market in which the assets are located have a significant change in the current period or in the near future, so the Company will be affected adversely;
- 3) Market interest rates or rates of return on investment of other markets are improved in the current period, which affects the discount rate that the Company calculates the present value of the future cash flow expected to be derived from the asset and results in a significant reduction in its recoverable amount;
- 4) There is evidence that the asset has obsolesced or has been damaged;
- 5) The asset has been or will be left unused, or terminated for use, or disposed ahead of schedule;
- 6) There is evidence that the economic performance of the assets has been below or will be lower than expected.
- 7) Other indications that the asset may have been impaired.

#### 4.16.2 Measurement of recoverable amounts of assets or asset group

The recoverable amount shall be recognized on the basis of the higher of fair values of the asset less costs to sell and the present values of future cash flows expected to be derived from the asset.

#### 4.16.3 Recognition of asset impairment loss

If there is an indication that an asset may be impaired, the Company shall

estimate its recoverable amount on the basis of the individual asset. If it is difficult to estimate the recoverable amount of an individual asset, the Company shall estimate the recoverable amount of the asset portfolio that individual asset belongs to. Asset groups shall be recognized according to whether or not the major cash inflow generated by the asset group is independent from cash inflows of other assets or asset groups.

If the recoverable amount of the asset group or the combination of asset groups is lower than its carrying amount, the impairment loss shall be recognized accordingly. At first, the amount of the impairment loss deducts the book value of goodwill allocated to the asset group or the combination of asset groups. After that, book values of other assets except goodwill shall be deducted according to proportion of the book value of each asset group or combination of asset groups in the total book value of relevant asset groups or combinations of asset groups except goodwill.

#### 4.16.4 Impairment of goodwill

The goodwill formed by the merger of the company shall be tested for impairment at least annually at the end of each year. For the book value of goodwill formed by the merger, it shall be allocated to the relevant asset group in a reasonable way from the date of purchase; if it is difficult to allocate to the relevant asset group, it shall be allocated to the relevant asset group combination. If there are signs of impairment in the asset group or group of asset groups containing goodwill on which an impairment test is conducted, the company should perform impairment test on asset groups or asset group combinations that do not include goodwill at first, calculate the recoverable amount and compare with the relevant book value to confirm the corresponding impairment loss. Then conduct impairment test on the asset group or group of asset groups containing the goodwill and compare the book value of the relevant asset group or group of asset groups (including the book value portion of the assessed goodwill) with the recoverable amount, if the recoverable amount of the asset group combination is lower than its book value, the impairment loss of the goodwill is recognized.

4.16.5 Once the asset impairment loss is confirmed, it will not be reversed in the subsequent accounting period and will be transferred out when the related assets are disposed of.

#### **4.17 Recognition and Measurement of Borrowing Costs**

##### **4.17.1 Principles for recognition of capitalization of borrowing costs:**

The borrowing costs incurred which can be directly attributed to the assets purchasing or manufacturing that meet the capitalization conditions, should be capitalized and included in the cost of related assets; other borrowing costs occurred should be recognized as expenses according to the amount of its occurrence, and included in the current profit and loss. Assets eligible for capitalization refer to fixed assets, investment real estate, inventory, and other assets that require a considerable amount of time for acquisition, construction, or production to be ready for use or sale.

##### **4.17.2 Capitalization period of borrowing costs:**

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

- a. Asset expenditures have occurred;
- b. Borrowing costs have already occurred;
- c. the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started..

##### **2) Suspension of capitalization:**

If the acquisition and construction or production activities of assets eligible for capitalization are interrupted abnormally and this condition lasts for more than three months, the capitalization of borrowing costs should be suspended. The borrowing costs incurred during interruption are recognized as expenses and recorded into current profit or loss until the acquisition and construction or production activities of the assets restart.

##### **3) Stopping capitalization: When the qualified asset under acquisition and**

construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased.

#### 4.17.3 Measurement of capitalized amount of borrowing costs:

Special borrowings borrowed for acquiring and constructing or producing assets eligible for capitalization shall be determined at interest expense of special borrowing actually incurred in the current period less the interest income of the borrowings unused and deposited in bank or return on temporary investment.

As for general borrowings used for acquiring and constructing or producing assets eligible for capitalization, the to-be-capitalized interest amount of general borrowings shall 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. Within the capitalization period, the interest amount capitalized per accounting period does not exceed actual interest amount generated by relevant borrowings in the current period.

### 4.18 Confirmation and Measurement of Share Payment

Share-based payments are divided into equity-settled share-based payments and cash-settled share-based payments.

#### 4.18.1 Equity-settled share-based payments

An equity-settled share-based payment in exchange for the employee's services is measured at the fair value at the date when the equity instruments are granted to the employee. Such fair value during the vesting period of service or before the prescribed exercisable conditions are achieved is recognized as relevant cost or expense, and increase capital reserve simultaneously.

The fair value during the vesting period of service or before the prescribed exercisable conditions are achieved is recognized as relevant cost or expense on a straight-line during the vesting period based on the best estimated quantity of exercisable equity instruments, accordingly increase capital reserve.

The company will no longer adjust the confirmed costs and the total owners' equity after the vesting date. On the exercise date, according to the status of employees' exercise, the share capital and share premium are recognized, and the capital reserve recognized during the waiting period is carried forward.

#### 4.18.2 Cash-settled share payment

A cash-settled share-based payment is measured at the fair value at the date at which the Company incurred liabilities that are determined based on the price of the shares or other equity instruments. If it is immediately vested, the fair value of the liabilities at the date of grant is recognized as relevant cost or expense, and corresponding liabilities. If it is exercisable only when the vesting period of service is expired or the prescribed conditions are achieved, the fair value of liabilities undertaken by the Company are re-measured at each balance sheet date based on the best estimate of exercisable situation. The company will no longer confirm the cost after the feasible date. The changes at fair value of the liabilities are recognized in the profit or loss for the year.

### 4.19 Hedge accounting

The hedging refers to the fact that, the company designates one or more hedging instruments whose changes of fair value or cash flows to offset all or part of the fair value or cash flow changes of the hedged item, in order to avoid foreign exchange risks, interest rate risks, commodity price risks, stock price risks, credit risks, etc. Hedging is divided into fair value hedging, cash flow hedging and foreign investment net investment hedging.

The hedging instrument refers to the derivative instruments designated by the company for hedging whose fair value or cash flow changes are expected to offset the changes in the fair value or cash flow of the hedged item, and non-derivative financial assets or non-derivative financial liabilities specified in foreign exchange risk hedging.

A hedged item refers to an item that exposes the company to changes in fair value



or cash flow and is designated as a hedged object.

4.19.1 The hedging accounting method is applied to deal with Hedging when the following conditions are met simultaneously:

1) At the beginning of the hedging, there was a formal designation of the hedging relationship and a formal written document was prepared on the hedging relationship, risk management objectives and hedging strategies.

2) The expectation of hedging is highly effective and in line with the risk management strategy initially determined by the company for the hedging relationship.

3) For the cash flow hedging of the expected transaction, the expected transaction should be likely to occur, and the company must be exposed to the risk of cash flow changes that will ultimately affect the profit and loss.

4) The effectiveness of hedging can be reliably measured.

5) This hedge is highly effective in the accounting period in which the hedging relationship is specified.

4.19.2 Hedging that satisfies the following conditions at the same time is deemed to be highly effective:

1) At the beginning of the hedging period and thereafter, the hedging is expected to be highly effective in offsetting the changes in the fair value or cash flow arising from the hedged risk during the specified period of the hedging;

2) The actual offset result of this hedge is within the range of 80% to 125%.

## **4.20 Employee compensation**

### **4.20.1 Short-term compensation accounting**

Short-term benefit includes salary, bonus, allowance, welfare, social insurance, housing funds, about union expense, staff training expense, during the period in which the service rendered by the employees, the actually incurred short term employee benefits shall be recognized as liability and shall be recognized in P&L or related cost of asset. Non-monetary benefits are measured at fair value.

#### 4.20.2 Accounting treatment methods for post-employment welfare

Post-employment benefits are employee's benefit payable as a result of either an entity's decision to terminate an employee's employment before the contract due date or an employee's decision to accept voluntary redundancy in exchange for those benefits. An entity shall recognize the termination benefits as a liability and an expense at the earlier date when the entity cannot unilateral withdraw the termination benefits due to employment termination plan or due to redundancy suggestion, or when the entity can recognize the restructuring cost or expense arising from paying termination benefits.

Post-employment benefits mainly include defined contribution plans, which mainly consist of basic pension insurance and unemployment insurance, and the corresponding amount payable is recorded in the relevant asset cost or current profit or loss when it occurs.

#### 4.20.3 Accounting treatment method for dismissal welfare

The employee's internal retirement plan is treated on the same principle as the above-mentioned termination benefit. The salaries of the internally retired staff and the social insurance premiums to be paid during the period from the employee's suspension of service until the normal retirement date shall be recorded in the current profit or loss (demission welfare) when they meet the conditions for confirming the estimated liabilities.

#### 4.20.4 Accounting treatment of other long-term employee remuneration payable

If other long-term employee's benefit is qualified as defined contribution plan, contribution made shall be recognized as liabilities accordingly for the period in which the service are rendered by the employee and recognized in the profit or loss for the current period or relevant cost of assets. In addition, accounting treatment is carried out according to the defined benefit plans.

#### 4.21 Estimated liabilities

If the Company has obligations related to contingent events which meet the following conditions, provision should be recognized: It is the Company's present obligation; carrying out the obligation will probably cause the Company's economic benefit outflow; the obligation can be reliably measured.

Provision is originally measured on the best estimate of outflow for paying off the present obligations, and to consider the risk, uncertainty, time value of monetary relevant to contingent items. At each balance sheet date, the book value of provision is reviewed. If there is conclusive evidence that the book value can not reflect the current best estimate, the book value should be adjusted according to the best estimate.

#### 4.22 Revenue Recognition Principle

##### 4.22.1 Principle of recognition of revenue from selling goods

Revenue from sales of goods is confirmed when the following conditions are satisfied simultaneously: Company has transferred all the significant risks and rewards of the ownership of the goods to the buyers, and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. The relative sale proceeds have been reliably measured, respective economic benefit probably inflow to the company, and the incurred or incurring cost can be reliably measured.

##### 4.22.2 Principle of recognition of revenue from providing labor services

Where the results of the labor services provided on the balance sheet date can be estimated reliably, the income from the provision of labor services is recognized with the completion percentage method. The Company ascertains the schedule of completion according to the measurement of the work completed.

If an enterprise cannot, on the date of the balance sheet, measure the result of a transaction concerning the providing of labor services in a reliable way, it shall be

conducted in accordance with the following circumstances, respectively:① If the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount;② If the cost of labor services incurred is not expected to compensate, the cost incurred should be included in the current profits and losses, and no revenue from the providing of labor services may be recognized.

#### 4.22.3 Principle of recognition of revenue from alienating the right to use assets

Revenue from alienating of right to use assets if the relevant economic benefits are likely to flow into the enterprise and the amount can be measured in a reliable way may be recognized based on the following circumstances, respectively:

(1) The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the enterprise's cash is used by others and the actual interest rate;

(2) The amount of royalty revenue should be measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

### **4.23 Revenue Recognition Principle (NEW) (Implemented by Inzone Group Co., Ltd., Lushang Health Industry Development Co.,Ltd., subsidiaries of the Company, on January 1, 2020)**

#### 4.23.1 General principles of revenue recognition

Revenue is recognized when the performance obligations in the contract are fulfilled, that is, when the customer obtains control of the relevant goods or services.

If the contract contains two or more performance obligations, at the beginning of the contract, the transaction price shall be apportioned to each individual performance obligation according to the relative proportion of the separate selling price of the

goods or services promised by the single performance obligation, and the income shall be measured according to the transaction price apportioned to each single performance obligation.

The transaction price is the amount of consideration that is expected to be entitled to receive as a result of the transfer of goods or services to customers, excluding payments received on behalf of third parties. The recognized transaction price shall not exceed the amount that the accumulated recognized income will not be reversed significantly when the relevant uncertainty is eliminated. The amount expected to be returned to the customer is not included in the transaction price as a liability. If there are significant financing elements in the contract, the transaction price shall be determined according to the amount payable in cash when the customer obtains control of the goods or services. The difference between the transaction price and the contract consideration shall be amortized by the effective interest method during the contract period. If it is estimated that the interval between the customer's acquisition of control over the goods or services and the payment of the price by the customer does not exceed one year on the date of the contract, the significant financing elements in the contract shall not be considered.

If one of the following conditions is met, the performance obligation shall be performed within a certain period of time; otherwise, the performance obligation shall be performed at a certain time point:

- 1) The customer obtains and consumes the economic benefits brought by the performance of the company at the same time of performing the contract.
- 2) Customers can control the goods under construction in the process of performance.
- 3) The goods produced during the performance of the contract have irreplaceable uses, and have the right to receive payment for the part of the performance that has been completed so far during the whole contract period.

For the performance obligations performed in a certain period of time, the

revenue is recognized according to the performance progress in the period. If the performance schedule cannot be reasonably determined and the cost incurred is expected to be compensated, the revenue shall be recognized according to the cost amount incurred until the performance schedule can be reasonably determined.

For performance obligations performed at a certain point in time, revenue is recognized at the time when the customer obtains control of the relevant goods or services. In determining whether a customer has acquired control of goods or services, consider the following indications:

- 1) Has a current right to receive payment in respect of the goods or services;
- 2) legal ownership of the goods has been transferred to the customer;
- 3) The physical goods of the goods have been transferred to the customer.
- 4) The main risks and rewards of ownership of the goods have been transferred to the customer;
- 5) The customer has accepted the goods or services, etc;

The right to receive consideration due to the transfer of goods or services to customers is listed as contract assets. The impairment of contract assets is based on the expected credit loss. The right to unconditionally collect consideration from customers is presented as receivables. The obligation to transfer goods or services to customers for consideration received from customers is presented as contract liabilities.

#### 4.23.2 Specific policies for revenue recognition

The company's income mainly includes real estate sales income, property rental income, property management income, hotel income, medical sales income, cosmetics sales income and sales commodity income, and its recognition principle:

1) Real estate sales revenue: the real estate sales revenue is recognized when the real estate is completed and accepted, the sales contract is signed, the buyer's payment certificate is obtained and delivered for use.

2) Property rental income: property rental income is recognized by the straight-line method according to the contract or agreement signed with the lessee.



3) Property management income: income is recognized in the process of providing property services.

4) Hotel Revenue: revenue is recognized when hotel room services have been provided and the right to charge service fees is obtained.

5) Pharmaceutical sales revenue: Pharmaceutical Group signs the purchase and sales contract with all parties to the contract, fulfills the performance obligations in the contract, and recognizes the sales revenue of pharmaceutical products when the customer obtains the right of commodity control.

6) Sales revenue of cosmetics: according to the sales contract between the company and its customers, under the distribution mode, the company will deliver the products to the buyer and confirm the sales revenue after the buyer's acceptance; Under the mode of consignment, the company delivers the products to the trustee, and the sales revenue is recognized when the trustee issues the consignment list; In the direct selling mode, the company delivers the products to the consumers, and the sales revenue is recognized after the consumers confirm the receipt and pay for the goods.

7) Income from sales of goods: the sales of goods by department stores, electrical appliances and supermarket business subsidiaries are recognized as income when the price of the goods sold has received or obtained the right to claim the price, transfer the ownership certificate of the goods or deliver the goods. If the company controls the goods before transferring goods to customers, the company is the main responsible person and the revenue is recognized according to the total consideration received or receivable from customers. If the company's performance obligation is to arrange for the other party to provide goods, the company is the agent and the revenue is recognized in accordance with the amount of commission or commission that it is expected to be entitled to receive. When the company obtains the control over the relevant goods or services, the company shall recognize the income according to the consideration amount expected to be entitled to collect; When the company transfers goods to customers, if it needs to pay consideration to customers, the consideration

paid shall be offset against sales income, except that the consideration payable to customers is to obtain other goods that can be clearly distinguished from customers. The credit period given to customers by the company is determined according to the credit risk characteristics of customers, consistent with industry practice, and there is no significant financing component. Accounting treatment method of membership points: the company will award reward points to customers while selling products or providing services. Customers can offset the reward points to cash consumption and exchange them into free or discounted goods or services provided by the company or a third party. The company shall deal with the transaction items as follows: A. while selling products or providing services, the goods or receivables obtained from sales are distributed between the income generated from the sale of goods or services and the fair value of reward points, and the part of the acquired goods or receivables deducting the fair value of reward points is recognized as income, The fair value of reward points is recognized as contract liabilities. The fair value of reward points shall be determined according to the exchange value standard and expected exchange rate of reward points. B. When the customer who gets the reward points exchange the reward points, the company recognizes the part related to the points that are originally included in the contract liabilities as income. C. On each balance sheet date, the fair value of reward points is re calculated according to the change of points exchange rules and actual situation of points exchange. According to the effective accumulated scores at the end of the period, the fair value of reward points and the balance of the "contract liabilities" account, the contract liabilities recognized by the bonus reserve points are adjusted.

#### **4.24 Contract cost (Implemented by Inzone Group Co., Ltd., Lushang Health Industry Development Co.,Ltd., subsidiaries of the Company, on January 1, 2020)**

The contract cost of the company includes the incremental cost and contract

performance cost for obtaining the contract. The incremental cost incurred for obtaining the contract ("contract acquisition cost") refers to the cost that would not have occurred without obtaining the contract. If the cost is expected to be recovered, the company will recognize it as a contract acquisition cost as an asset.

The cost incurred by the company for the performance of the contract, which does not fall within the scope of other accounting standards for enterprises such as inventory and meets the following conditions at the same time, shall be recognized as an asset as the contract performance cost:

- 1) The cost is directly related to a current or expected contract, including direct labor, direct materials, manufacturing costs (or similar costs), costs clearly borne by the user and other costs incurred solely as a result of the contract;
- 2) This cost increases the resources of the company for the performance of the obligations in the future;
- 3) The cost is expected to be recovered.

The company amortizes the assets (hereinafter referred to as "assets related to contract cost") recognized by the contract acquisition cost and contract performance cost on the same basis as the recognition of commodity income related to the asset, and is included in the current profit and loss. If the amortization period of assets formed by incremental cost of obtaining contract is no more than one year, it shall be included in current profit and loss when incurred.

When the book value of the assets related to the contract cost is higher than the difference between the following two items, the company will withdraw the provision for impairment and recognize the excess as the loss of asset impairment:

- 1) The expected residual consideration due to the transfer of commodities related to the asset;
- 2) The estimated cost to be incurred for the transfer of the relevant goods.

## 4.25 Government grants

Government grants refer to the free acquisition of monetary assets or non-monetary assets from the government.

### 4.25.1 Types of government grants

Government grants mainly include two types: assets-related government grants and income-related government grants.

Assets-related government grants are the government fund obtained by the company for the purpose of long-term assets purchase and construction or establishment in the other forms. Income-related grants are the grant given by the government apart from the assets-related grants.

### 4.25.2 Accounting treatment of government grants

#### 1) Initial measurement of government grants

Where a government grant is in the form of a transfer of monetary asset, it is measured at the amount received. Where a government grant is in the form of a transfer of non-monetary asset, it is measured at fair value.

#### 2) Subsequent measurement and termination of government grants

Assets-related government grants are recognized as deferred income or directly offsetting the book value of the asset, and Assets-related government grants recognized as deferred income shall be evenly amortized to profit or loss over the useful life of the related asset. Any assets are sold, transferred, disposed of or impaired earlier than their useful life expired date, the remaining balance of deferred income which hasn't been allocated shall be carried forward to the income statement when the assets are disposed of.

Income-related government grants that is a compensation for related expenses or losses to be incurred in subsequent periods are recognized as deferred income and credited to the relevant period when the related expense are incurred. Government grants relating to compensation for related expenses or losses already incurred are

charged directly to the profit or loss for the period or offset the asset cost.

For government grants that include both assets-related and income-related parts the accounting treatment should be distinguished separately; if it is difficult to distinguish, they should be classified as income-related government grants.

Government grants related to daily business, shall be recognized as other income in accordance with business nature, otherwise, shall be recognized as non-operating expenses.

If any government grant already recognized needs to be returned to the government, the accounting shall be differed according to the following circumstances: 1) originally recognized as offsetting of related assets' book value, assets book value shall be adjusted; 2) if any deferred income, book value of deferred income shall be offset, excessive portion shall be accounted into income statement; 3) Other situation, it shall be accounted into income statement directly.

#### **4.26 Accounting treatment of income taxes**

##### **4.26.1 The income tax is accounted for using balance sheet approach.**

The deferred income tax assets or the deferred income tax liabilities should be recognized according to the temporary difference. The temporary difference shall refer to the difference between the carrying amount of an asset or liability and its tax base. As for an item that has not been recognized as an asset or liability, if its tax base can be determined in light of the tax law, the difference between the tax base and its carrying amount shall also be a temporary difference.

##### **4.26.2 Recognition of deferred income tax assets**

An enterprise shall recognize the deferred income tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is featured by

the following, shall not be recognized: This transaction is not business combination; and at the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

Where the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises can meet the following requirements simultaneously, the enterprise shall recognize the corresponding deferred income tax assets: The temporary differences are likely to be reversed in the expected future; and it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

#### 4.26.3 Recognition of deferred income tax liabilities

Except for the deferred income tax liabilities arising from the following transactions, an enterprise shall recognize the deferred income tax liabilities arising from all taxable temporary differences:

- 1) The initial recognition of goodwill;
- 2) The initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following: (a) The transaction is not business combination; (b) At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.
- 3) The taxable temporary differences related to the investments of subsidiary companies, associated enterprises and joint enterprises can simultaneously meet the following conditions: (a) The investing enterprise can control the time of the reverse of temporary differences; and (b) The temporary differences are unlikely to be reversed in the expected future.

4.26.4 The carrying amount of deferred income tax assets shall be reexamined on the balance sheet day. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred income tax assets, the carrying amount of the deferred income tax assets shall be written down. When it is possible to obtain sufficient taxable income, the amount of write-down should be reversed.



## 4.27 Business Combination

### 4.27.1 Corporate merger under the same control

For a business combination under the same control, the assets and liabilities of the merged party acquired in the merger are measured at the original book value of the merged party on the merger date except for adjustments made due to different accounting policies. The difference between the book value of the merger consideration (or the total par value of the shares issued) and the book value of the net assets obtained shall be adjusted to the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted.

The direct related expenses incurred for the business combination shall be included in the current profits and losses when occurred.

### 4.27.2 Business combinations not under the same control

For a business combination not under common control, the cost of a merger is the fair value of the assets paid, the liabilities incurred or assumed, and the equity securities issued during the acquisition of the company's control over the acquire. On the acquisition date, the acquirer's assets, liabilities and contingent liabilities acquired by the company are recognized at fair value. If the purchaser's merger cost is higher than the fair value of the identifiable net assets of the acquire obtained in the merger, the difference shall be recognized as goodwill, which is measured at cost less accumulated impairment allowance; and if the merger cost is less than the fair value of the identifiable net assets, the difference can be identified is included in the current profit or loss.

The direct expenses related to the merger, including audit fees, evaluation fees and legal service fees paid for the business combination, shall be recorded into the current profit or loss when incurred. The bonds issued for the business combination or the handling fees and commissions for the payment of other debts shall be included in the initial measurement amount of the bonds and other debts issued. The fees,

commissions, and other expenses incurred in the issuance of equity securities in a business combination are deducted from the equity securities premium income. If the premium income is insufficient to offset, the retained earnings shall be written off. The merger date is the date on which the merging party actually obtained control of the merged party.

#### **4.28 Preparation method of consolidated financial statements**

##### **4.28.1 Confirmation principle of consolidated scope**

The scope of consolidated financial statements shall be confirmed base on the control. Invested enterprises of which the company has more than half voting rights shall be determined within the consolidated scope. Invested enterprises of which the company has less than half of voting rights, but are substantially controlled by the company shall be determined within the consolidated scope.

##### **4.28.2 Preparation basis and method of consolidated financial statements**

The scope of the consolidated financial statements is on the base of control. The parent company incorporates all its subsidiaries (including the separate entities controlled by the parent company) into the consolidated scope of the consolidated financial statements. If the parent company is an investment entity, the parent company will only include the subsidiary (if any) that provides related services for its investment activities into the scope of consolidation and prepare the consolidated financial statements; other subsidiaries will not be consolidated, and the investments should be measured at fair value and their changes should be recorded in the current profit or loss.

The consolidated financial statements shall be prepared by parent company on the base of the individual financial statements of the parent and subsidiaries and other information of parent company and the subsidiaries included in the scope of consolidation. The internal equity investment and owners' equity of subsidiaries, internal investment income and profit distribution of subsidiaries, internal transactions,

and internal credits and debts should be offset.

In the period of report, for the added subsidiary companies under the same control preparing the balance sheet, the Company shall include the income, expenses, and profits of the subsidiary into the consolidated income statement from the beginning of the period to the end of the report period and included the cash flow in the consolidated cash flow statement, and incorporate the cash flow into the consolidated cash flow statement. When compiling the comparative accounting statements, the subsidiary company is also included in the consolidated financial statements. For the added subsidiary company not under the same control preparing the balance sheet, shall include the income, expenses, and profits of the subsidiary into the consolidated income statement from the acquisition date to the end of the report period and included the cash flow in the consolidated cash flow statement.

When the Company prepares the consolidated financial statements, if the accounting policies and accounting periods adopted by the subsidiaries are inconsistent with the company, the company will adjust or restate the financial statements of the subsidiaries based on the accounting policies and accounting periods adopted by the Company.

#### **4.29 Lease**

If the lease terms substantially transfer all risks and rewards related to the ownership of the leased asset to the lessee, the lease is a finance lease and the others are operating leases.

##### **4.29.1 The company as a lessor**

On the beginning date of the lease term, a lessor shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value,

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and the sum of their present values shall be recognized as unrealized financing income. The unrealized financing income shall be allocated to each period during the lease term by adopting the effective interest rate method.

The rents from operating leases shall be recorded in profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred shall be recognized as the profits and losses of the current period.

#### 4.29.2 The company as a lessee

On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs are directly attributable to the leased item.

The rents from operating leases shall be recorded in profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred shall be recognized as the profits and losses of the current period.

### Note 5 Taxes

#### 5.1 Major taxes and rates

Tax categories	Tax basis	Tax rate
VAT	The value added during the sale of goods or the provision of taxable services	3%、5%、6%、9%、10%、11%、13%、16%
Corporate income tax	Taxable income	15%、20%、25%
Business tax	Taxable income	5%
Urban maintenance and construction tax	Tax turnover payable	Paid by company location policy

Tax categories	Tax basis	Tax rate
Additional education fee	Tax turnover payable	Paid by company location policy
Land appreciation tax	Real Estate Sales Revenue - Deductions	Progressive tax rate by 30%-60%

## 5.2 Other matters needing explanation

In addition to the above-mentioned taxes, others are calculated and paid according to the relevant national and local regulations.

### Note 6 Other significant changes on accounting policies and accounting estimates, correction of the accounting errors from previous term and other adjustments

#### 6.1 Changes in accounting policies

##### 6.1.1 Accounting policy changes caused by the implementation of new enterprises

##### 1) Content and reason of change

The company's subsidiaries Inzone Group Co., Ltd., and Lushang Health Industry Development Co., Ltd. have implemented the new revenue standard since January 1, 2020. The Ministry of Finance issued the Accounting Standards for Business Enterprises No. 14 - Revenue (Accounting [2017] No. 22) (hereinafter referred to as the "new revenue standard") in 2017, requiring domestic listed enterprises to implement the new revenue standard since January 1, 2020. The new income standard requires that the cumulative impact of the first implementation of the standard should be adjusted to the amount of retained earnings and other relevant items in the financial statements at the beginning of the first implementation year (i.e. January 1, 2020), and the information of the comparable period should not be adjusted. When implementing the new revenue standard, the company only adjusts the cumulative impact of contracts that have not been completed on the first execution date.

##### 2) Cumulative impact of accounting policy changes

As the subsidiary Inzone Group Co., Ltd., and Lushang Health Industry

Development Co.,Ltd. adopted the new income standard on January 1st, 2020, the cumulative impact on the changes of accounting policies in financial statements is RMB 0. The company has adjusted the cumulative impact of the contract that has not yet been completed on the first day of execution, adjusted the first implementation of the new revenue guidelines, retained earnings in early 2020 and other related items in the financial statements, that is, reducing the retained earnings at the beginning of 2020 by RMB 0, including reducing the undistributed profit margin by RMB 0, reducing the surplus reserve by RMB 0, and not adjusting the information for the comparable period.

3) Impact of the first implementation of the new income standard on relevant items of financial statements at the beginning of the year

On January 1, 2020, the group implemented the new income standard for the first time, and the impact on the group's assets, liabilities and owner's equity is summarized as follows:

Consolidated report items	December 31, 2019	Impact of the implementation of the new income standards	January 1, 2020
Current assets:			
Monetary assets	10,675,329,176.42		10,675,329,176.42
△Deposit Reservation for Balance			
△Funds lent			
☆Trading financial assets			
Financial assets measured at fair value through current profit and loss	3,975,058,648.42		3,975,058,648.42
Derivative financial assets			
Notes receivable	263,373,724.18		263,373,724.18
Accounts receivable	849,783,507.15		849,783,507.15
Accounts receivable financing			
Advances to suppliers	5,013,510,641.50		5,013,510,641.50



△Insurance premium receivable			
△Reinsurance accounts receivable			
△Reinsurance contract provision receivable			
Other receivables	6,472,331,232.13		6,472,331,232.13
△Buying back the sale of financial assets			
Inventories	47,269,721,058.58		47,269,721,058.58
☆Contract assets			
Assets held for sale			
Non-current assets maturing within one year			
Other current assets	1,947,437,001.47	506,424,974.23	2,453,861,975.70
Total current assets	76,466,544,989.85	506,424,974.23	76,972,969,964.08
Non-current assets:			
△Grant of loans and advances	436,887,655.42		436,887,655.42
☆Debt investments	62,391,530.08		62,391,530.08
Available-for-sale financial assets	2,039,295,600.14		2,039,295,600.14
☆Other debt investments			
Held-to-maturity investments	186,428,140.60		186,428,140.60
Long-term receivables	1,118,494,395.36		1,118,494,395.36
Long-term equity investments	611,937,676.02		611,937,676.02
☆Other equity instruments investments	90,000,000.00		90,000,000.00
☆Other non-current financial assets			
Investment properties	6,652,696,674.17		6,652,696,674.17
Fixed assets	9,255,785,209.05		9,255,785,209.05
Construction in progress	509,990,548.93		509,990,548.93
Productive biological assets			
Oil and gas assets			
☆Right to use assets			

Intangible assets	2,402,517,496.95		2,402,517,496.95
Development expenses	2,005,752.96		2,005,752.96
Goodwill	1,920,469,689.18		1,920,469,689.18
Long-term prepaid expenses	699,584,152.56		699,584,152.56
Deferred income tax assets	442,846,434.14		442,846,434.14
Other non-current assets	488,492,313.31		488,492,313.31
Total non-current assets	26,919,823,268.87		26,919,823,268.87
Total assets	103,386,368,258.72	506,424,974.23	103,892,793,232.95

(continued)

Consolidated report items	December 31, 2019	Impact of the implementation of the new income standards	January 1, 2020
Current liabilities:			
Short-term loans	13,975,735,248.16		13,975,735,248.16
△ Borrowings from the Central Bank			
△ Funds borrowed			
☆ Transaction financial liabilities			
Financial liabilities measured at fair value through current profit and loss			
Derivative financial liabilities			
Notes payable	5,777,845,034.35		5,777,845,034.35
Accounts payable	9,161,847,545.95		9,161,847,545.95
Advances from customers	17,111,812,995.99	-16,438,964,215.05	672,848,780.94
☆ Contract liabilities		16,436,269,315.43	16,436,269,315.43
△ Financial assets sold for repurchase	880,000,000.00		880,000,000.00
△ Absorption of deposits and interbank deposit			
△ Acting trading securities			
△ Acting underwriting securities			
Employee remuneration payable	413,194,597.22		413,194,597.22
Taxes and surcharges payable	959,206,118.87		959,206,118.87

Other payables	7,043,143,668.09		7,043,143,668.09
△ Handling charges and commissions payable			
△ Reinsurance accounts payable			
Liabilities held for sale			
Non-current liabilities maturing within one year	9,817,626,560.89		9,817,626,560.89
Other current liabilities	29,409,666.66	516,425,605.53	545,835,272.19
Total current liabilities	65,169,821,436.18	513,730,705.91	65,683,552,142.09
Non-current liabilities:			
△ Insurance contract reserves			
Long-term loans	8,416,404,272.08		8,416,404,272.08
Bonds payable	7,046,143,024.16		7,046,143,024.16
☆ Lease liability			
Long-term payables	2,076,793,477.08		2,076,793,477.08
Long-term employee remuneration payable	4,179,650.75		4,179,650.75
Estimated liabilities	54,521,593.04		54,521,593.04
Deferred income	195,345,512.68	-7,305,731.68	188,039,781.00
Deferred income tax liabilities	589,683,791.57		589,683,791.57
Other non-current liabilities			
Total non-current liabilities	18,383,071,321.36	-7,305,731.68	18,375,765,589.68
Total liabilities	83,552,892,757.54	506,424,974.23	84,059,317,731.77
Owners' equity (or shareholder's equity) :			
Paid-in capital (or share capital)	2,097,767,489.50		2,097,767,489.50
Other equity instruments	5,910,178,377.36		5,910,178,377.36
Capital reserves	618,508,819.22		618,508,819.22
Less: treasury stock			
Other comprehensive income	324,087,164.43		324,087,164.43
Special reserves			
Surplus reserves	569,163,754.33		569,163,754.33

△General risk reserves	222,861.58		222,861.58
Undistributed profits	2,532,492,968.45		2,532,492,968.45
Total equity attributable to owners of the parent company	12,052,421,434.87		12,052,421,434.87
*Minority equity	7,781,054,066.31		7,781,054,066.31
Total owners' equity	19,833,475,501.18		19,833,475,501.18
Total liabilities and owners' equity	103,386,368,258.72	506,424,974.23	103,892,793,232.95

## 6.2 Accounting treatment of novel coronavirus pneumonia related rent reduction

According to the novel coronavirus pneumonia issued by the Ministry of Finance in 2020, the notice on Issuing the accounting treatment for rent reduction related to the new crown pneumonia epidemic situation (Accounting [2020] No. 10) and the novel coronavirus pneumonia office issued by the general office of the Shandong Provincial People's Government in 2020, the opinions of the general office of the Shandong Provincial People's Government on the new development of the health care of the wholesale and retail trade exhibition industry and the film projection industry in the wholesale service industry (Lu Zheng ban Fa [2020] No. 5) and other national and local governments' rent reduction policies for tenants during novel coronavirus situation, the company has reached rent reduction and exemption agreements with the lessee and the lessor respectively. When preparing the financial statements of 2020, the company has adopted the simplified method in the above notice, and the rent reduction and exemption is directly included in the current profits and losses.

## 6.3 Changes in accounting estimates

There is no accounting policy change in this accounting period.

## 6.4 Correction of previous accounting errors

There is no significant change in accounting estimate during the financial year.

## **Note 7 Business Combinations and Consolidated Financial Statement**

The company will include subsidiaries with actual control rights and special purpose entities in the scope of the consolidated financial statements.

The Company's consolidated financial statements are prepared in accordance with the requirements of the "Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements" and related regulations. When the Company prepares consolidated statements, all significant internal transactions and current account within the scope of consolidation are eliminated. For the shares in the owner's equity of subsidiary company not belong to parent enterprise, shall be listed in the item of "minority shareholder's equity" under the owner's equity in the consolidated balance sheet.

When preparing the consolidated financial statements, if the accounting policies or accounting periods adopted by the subsidiaries and the company are inconsistent, necessary adjustments shall be made to the subsidiaries' financial statements in accordance with the company's accounting policies or accounting periods.

For subsidiaries acquired from a business combination not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date. For the subsidiary obtained from combination under common control, it shall adjust the beginning balance of the consolidated financial statement.

### **7.1 Subsidiary situation**

#### **(1) Second level subsidiaries obtained through establishment or investment**

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Inzone Group Co., Ltd.	Directly held	Jinan	Commercial retail	52,006.66	Commercial retail	32,738.17		25.06	9.70	34.76	Y
Lushang Health Industry Development Co., Ltd.	Directly held	Zibo	Real estate development	100,915.22	Real estate development	153,018.89		52.01	1.71	53.72	Y
Shandong Silver Plaza Co., Ltd.	Directly held	Jinan	Commercial retail	40,000.00	Commercial retail	28,190.18		41.35		41.35	Y
Lushang Group Co., Ltd.	Directly held	Jinan	Investment, real estate development	65,974.00	Foreign investment, real estate development, etc.	22,279.58		32.77	35.24	68.01	Y
Lushang Inzone Automobile Co., Ltd.	Directly held	Jinan	car sales	4,000.00	Car and accessories sales, car rental, cleaning, repair	1,350.00		33.75		33.75	Y
Lushang Products Group Co., Ltd.	Directly held	Jinan	Mining Investment	10,000.00	Mining investment, site leasing, commodity import and export business	10,000.00		100.00		100.00	Y
Shandong Lushang Logistics Technology Co., Ltd.	Directly held	Jinan	Logistics and warehousing	2,100.00	Logistics and warehousing	2,151.07		100.00		100.00	Y
Shandong Etone Development Group Co., Ltd.	Directly held	Jinan	Financial Services	86,250.00	Development, production, and issuance of non-financial IC cards.	59,500.00		74.14		74.14	Y
Shandong Commercial Group Finance Co., Ltd.	Directly held	Jinan	Financial Services	200,000.00	Financial sector	215,166.55		100.00		100.00	Y
Shandong Lushang Institute	Directly held	Jinan	education	1,000.00	Education and training	1,000.00		100.00		100.00	Y
Shandong Quancheng Hotel Co. Ltd	Directly held	Jinan	Accommodation and Catering Industry	500.00	Catering services, conference and exhibition services, economic information consulting services, domestic advertising business rental housing	500.00		100.00		100.00	Y
Shandong Fuyuan Investment Co., Ltd.	Directly held	Jinan	investment	20,000.00	Foreign investment and management, corporate management consulting services	5,490.94		34.00		34.00	Y
Shandong Yongxing Group Co., Ltd	Directly held	Jinan	business	13,584.91	Mining investment capital management; sales of construction materials, mining equipment, hardware and electricity, and general merchandise	9,101.89		67.00		67.00	Y



Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Shandong Guonong Logistics Technology Co., Ltd	Directly held	Jinan	business	5,000.00	Chain logistics equipment (excluding automobiles) design, sales and installation; cold chain logistics engineering consulting, design, construction; logistics information engineering consulting, planning, design and construction, etc.	5,000.00		100.00		100.00	Y
Shandong Fuyuan Micro-credit Co., Ltd.	Directly held	Jinan	Financial industry	50,000.00	Handle various micro-credits in Shandong; carry out consultations on development, management and finance of small businesses	50,000.00		100.00		100.00	Y
Shandong Province Yuemei Travel Automobile Company	Directly held	Jinan	business	2,495.77	Chartered passenger and car rental	6,981.36		100.00		100.00	Y
Qilu Medical University	Directly held	Jinan	education	9,929.74	The education of Undergraduate, specialist, teaching services.	9,929.74		100.00		100.00	Y
Shandong Fuyuan Supply Chain Management Co., Ltd	Directly held	Jinan	Investment Management	3,000.00	Investment Management	1,800.00		60.00	40.00	100.00	Y
Shandong Fuyuan Investment holding Co., Ltd.	Directly held	Jinan	Investment	20,000.00	Investment	1,020.00		34.00		34.00	Y
Shandong Guoxin Cultural Tourism Development Group Co., Ltd	Directly held	Jinan	Culture and Tourism	822,693.38	Cultural and tourism industry development, operation, management and consulting services; foreign investment with own funds; educational consulting, educational software technology development; enterprise management consulting; cultural art management; tourism souvenir design and sales; new media development and management; advertising business; film and television production; etiquette celebration	195,905.89		44.00		44.00	Y

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
					planning services; conference and Exhibition Services; catering; accommodation; cableway services; Scenic spot passenger service; parking service; food, dairy products, daily necessities, clothing, shoes and hats, textiles, office supplies, sporting goods, furniture, household appliances, computer and auxiliary equipment, books and periodicals, arts and crafts, gold and silver jewelry, flower sales; Landscaping; house leasing; real estate development and operation, real estate information consulting, real estate intermediary services; house decoration; Property services. (for projects subject to approval according to law, business activities can be carried out only after approval of relevant departments).						
Shandong Hongtai Fuyuan Capital Management Co., Ltd	Directly held	Jinan	Investment management	1,000.00	Foreign investment with its own funds; enterprise management consulting service; project investment management; capital management; enterprise trusteeship; house leasing and property management. (for projects subject to approval according to law, business activities can be carried out only after approval of relevant	153.00		51.00		51.00	Y

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Lushang education Holding Co., Ltd	Directly held	Jinan	Education	5,000.00	Enterprise headquarters management; Information consulting services (excluding licensing information consulting services); Real estate management; Unit logistics management services; Catering management; Education consulting services (excluding education and training activities involving license approval); Software development; Conference and exhibition services; Development of digital cultural creative software	450.00		100.00		100.00	Y
Shandong Lushang Rural Revitalization industry fund partnership (limited partnership)	Directly held	Qingdao	Capital market services	250,000.00	To engage in private equity investment, investment management, asset management and other activities	100.00		20.00	19.6	39.6	Y
Shandong Hongtai furida equity investment partnership (limited partnership)	Directly held	Tai'an	Capital market services	100,000.00	Investment activities with own funds	145.00		29.00	26.00	55.00	Y
Shandong Lushang Urban Rural Integration Development Co., Ltd	Directly held	Jinan	Wholesale industry	10,000.00	Engaging in investment activities with its own funds; Production, sales, processing, transportation, storage and other related services of agricultural products; Sales of agricultural and sideline products			51	49	100.00	Y
Lushang group (hong kong) limited	Directly held	Hong kong	Trade	HK \$6 million	Automobile trade, pet food trade and cosmetics trade			100.00		100.00	Y
Shandong Lushang furida Pension Development Co., Ltd	Directly held	Jinan	Social work	10,000.00	Operation and management consultation of pension service institutions			100.00		100.00	Y

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Shandong Lushang Group Industrial Investment Co., Ltd	Directly held	Jinan	Investment management	5,000.00	Foreign investment with own funds; business management and consultation; Market opening; market management; enterprise management consulting; property management and consulting; real estate development; computer technology development, technology transfer and consulting services; education consulting; overseas study agency; labor export; planning and creative services; domestic advertising business; conference and exhibition services; parking lot services; venue rental; cleaning services; catering services; cultural and sporting goods Wholesale and retail of equipment, knitwear, clothing, daily necessities, cosmetics, aquatic products, machinery and equipment, hardware and electrical equipment, auto parts, drugs, medical equipment; retail of products, audio-visual products, arts and crafts (excluding cultural relics); processing and sales of food; retail and maintenance of household appliances and furniture; processing and retail of jewelry and gold; photography clothing Business; graphic design.	700.00		100.00		100.00	Y

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
					production; trade agent; warehousing service (excluding dangerous goods); import and export business. (for projects subject to approval according to law, business activities can be carried out only after approval of relevant departments).						

## (2) Second level subsidiaries obtained through business combination under the same control

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Shandong Inzone-Yingcai Kindergarten	Directly held	Jinan	Education	400.00	Early childhood education	342.68		77.00		77.00	Y
Shandong Inzone Green Home Furnishing Co., Ltd.	Directly held	Jinan	Business	1,057.00	Business, retail, wholesale	491.51		46.50		46.50	Y
Dongying Inzone Real Estate Development Co., Ltd.	Directly held	Dongying	Real estate development	1,000.00	Real estate development, selling; real estate agents	6,402.82		100.00		100.00	Y
Tai'an Inzone Real Estate Development Co., Ltd.	Directly held	Tai'an	Real estate development	2,000.00	Real estate development construction operation; house rental	9,071.17		97.00	3.00	100.00	Y
Jining Lushang Property Co., Ltd.	Directly held	Jining	Real estate development	2,000.00	Real estate development; real estate agents; real estate marketing planning; house rental	8,134.84		100.00		100.00	Y

## (3) Second level subsidiaries obtained through transfer

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Shandong Animal Husbandry and Industrial and Commerce General Corp.	Transfer	Jining	Business	3,175.00	Grain, feed and feed additives, livestock, counter trade and transit trade; house rental			100.00		100.00	Y

**(4) Institutions**

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Shandong Academy of Pharmaceutical Sciences	Directly Controlled	Jinan	Drug Discovery	Not applicable	Drug Research and Development	700.00		100.00		100.00	Y
Education Training Center for Employees of Shandong Commercial Group Co., Ltd.	Directly Controlled	Weihai	Education	Not applicable	Taking on the academic exchange activities of the province's educational system			100.00		100.00	Y
Shandong Institute of Commerce and Technology	Directly Controlled	Jinan	Education	Not applicable	Training higher vocational and technical personnel			100.00		100.00	Y
Qingdao Vocational and Technical College of Hotel Management	Directly Controlled	Qingdao	Education	Not applicable	Cultivating Technical Research Talents for Higher Education			100.00		100.00	Y
Shandong City Service Technician College	Directly Controlled	Yantai	Education	Not applicable	Training cook, hotel attendants, tour guide intermediate specialist			100.00		100.00	Y
Shandong Pharmaceutical Industry Designing Institute	Directly Controlled	Jinan	Medical Engineering Design	Not applicable	Design of Basic Construction Projects for Pharmaceutical Industry			100.00		100.00	Y
Kindergarten of Shandong Commercial Group Co., Ltd.	Directly Controlled	Jinan	Education	Not applicable	Preschool education	30.00		100.00		100.00	Y



**7.2 Second level subsidiaries and reasons which the Group hold less than 50% of equity interest but are included in the consolidation scope on 31 December 2020**

Name	Holdings Proportion (%)	Reason of including in consolidation
Inzone Group Co., Ltd.	34.76%	See note 1
Shandong Silver Plaza Co., Ltd.	41.35%	See note 2
Lushang Inzone Automobile Co., Ltd.	33.75%	See note 3
Shandong Fuyuan Investment Co., Ltd.	34.00%	See note 4
Shandong Fuyuan Investment holding Co., Ltd.	34.00%	See note 5
Shandong Guoxin Cultural Tourism Development Group Co., Ltd	44.00%	See note 6

Note 1: The Company holds 34.76% equity of Inzone Group Co., Ltd..According to the articles of association, the Company determines its production and operation. Therefore, the Company has actual control over the entity and has included it in the consolidation scope.

Note 2: The Company holds 41.35% of the equity of Shandong Silver Plaza Co., Ltd. According to the Company's articles of association, the Company determines the its production and operation, so the Company has actual control over the entity and has included it in the scope.

Note 3: The company holds 33.75% of the equity of Lushang Inzone Automobile Co., Ltd. According to the Company's articles of association, the Company determines the its production and operation, so the Company has actual control over the entity and has included it in the scope.

Note 4: The company holds 34.00% equity of Shandong Fuyuan Investment Co., Ltd. According to the Company's articles of association, the Company determines the its production and operation, so the Company has actual control over the entity and has included it in the scope.

Note 5: The company holds 34.00% equity of Shandong Fuyuan Investment holding Co., Ltd. According to the Company's articles of association, the Company determines the its production and operation, so the Company has actual control over the entity and has included it in the scope.

Note 6: The company holds 44.00% equity of Shandong Guoxin Cultural Tourism Development Group Co., Ltd. It is the largest shareholder, and the key management personnel and the chairman are the same person. The daily decision-making and operation management are actually controlled by the company.

**7.3 Companies and reasons which the Group hold more than 50% of equity interest but are not included in the consolidation scope on 31 December 2020.**

None.

**7.4 Companies newly included in the scope of consolidation in the current period and those no longer included in.**

**(1) Second level subsidiaries Companies newly included, and operating entities with control right formed through entrusted operation or leasing in the current period**

Name	Net assets at the end of period	Net profit in current period
Lushang education Holding Co., Ltd	7,495,653.72	1,520,653.72
Shandong Lushang Rural Revitalization industry fund partnership (limited partnership)	8,000,000.00	
Shandong Hongtai furida equity investment partnership (limited partnership)	3,250,123.81	123.81
Lushang group (hong kong) limited	13,893,891.86	7,511,748.59
Shandong Lushang Urban Rural Integration Development Co., Ltd	30,000,687.16	687.16
Shandong Lushang furida Pension Development Co., Ltd	73,218,373.80	-431,542.70

**(2) Second level subsidiaries Companies no longer included in and operating entities with control right formed through entrusted operation or leasing in the current period**

None.

**Note 8 Notes to the consolidated financial statements**

**8.1 Monetary assets**

Items	31-Dec-20	31-Dec-19
Cash in hand	29,512,196.17	33,372,126.40
Cash in bank	8,744,926,464.15	6,511,200,148.93
Other monetary funds	4,712,036,034.24	4,130,756,901.09
<b>Total</b>	<b>13,486,474,694.56</b>	<b>10,675,329,176.42</b>

Note 1: The limited monetary funds are RMB 3,660,030,064.35 on Dec.31, 2020.

The details are as follows: Various types of margin deposits that could not be realized in the short-term are RMB1,249,591,695.21; The compensation and special subsidies for the demolition of households under supervision are RMB841,359.08; the pre-sale supervision funds and loan guarantee funds were RMB1,617,127,050.13; the special

construction funds were RMB337,614,794.55; deposit reserves in bank of china were RMB 282,603,467.14 ; and the mortgage, frozen mortgage, and other funds that changed the existing restrictions amounted to RMB73,704,248.56;. Special funds and jointly managed funds are RMB98,547,449.68

## 8.2 Financial assets measured at fair value through current profit and loss

Items	31-Dec-20	31-Dec-19
Financial assets held for trading	742,456,790.76	10,548,522.28
Financial assets designated at fair value and through profit or loss	4,883,371,891.62	3,964,510,126.14
<b>Total</b>	<b>5,625,828,682.38</b>	<b>3,975,058,648.42</b>

## 8.3 Notes receivable

### (1) General category

Category	31-Dec-20			31-Dec-19		
	<u>Amount</u>	<u>Bad debt</u>	<u>Book value</u>	<u>Amount</u>	<u>Bad debt</u>	<u>Book value</u>
Bank acceptance bills	6,647,765.77		6,647,765.77	58,703,942.69		58,703,942.69
Commercial acceptance bills	182,738,410.13	2,011,260.57	180,727,149.56	204,669,781.49		204,669,781.49
<b>Total</b>	<b>189,386,175.90</b>	<b>2,011,260.57</b>	<b>187,374,915.33</b>	<b>263,373,724.18</b>		<b>263,373,724.18</b>

## 8.4 Accounts receivable

Category	31-Dec-20		31-Dec-19	
	<u>Amount</u>	<u>Bad debt</u>	<u>Amount</u>	<u>Bad debt</u>
Individually significant and subject to separate provision	170,000,000.00	36,138,092.96	12,024,781.93	1,202,478.19
Items as a credit risk collective group	893,533,509.00	106,991,677.97	928,349,974.79	96,005,218.32
Individually insignificant but provision for bad debts individually	41,001,739.90	16,214,900.03	6,616,446.94	
<b>Total</b>	<b>1,104,535,248.90</b>	<b>159,344,670.96</b>	<b>946,991,203.66</b>	<b>97,207,696.51</b>

## (1) Accounts receivable that are individually significant and subject to separate provision

Debtor name	Amount	Bad debt	Aging	Provision rate(%)	Provision reason
Fujian Hengtong Guidu International Hotel Management Co., Ltd	170,000,000.00	36,138,092.96	2-3years	21.26%	The account receivable has been estimated recoverability according to business nature at the end of the year and needs to be subject to separate provision.
<b>Total</b>	170,000,000.00	36,138,092.96	—	—	—

## (2) Items as a credit risk collective group

Items provided for using an aging analysis as a collective group are as follows:

Items	31-Dec-20		31-Dec-19	
	Amount	Bad debt	Amount	Bad debt
Within one year(including one year)	404,811,709.38	33,750,568.88	325,468,838.25	14,196,656.25
1-2 year(including two years)	48,700,563.18	4,759,401.19	29,704,639.68	7,667,983.83
2-3 year(including three years)	12,704,529.81	4,466,006.72	7,352,787.73	4,176,852.91
Over 3 years	59,755,086.72	52,039,860.28	44,886,068.10	42,380,106.08
<b>Total</b>	525,971,889.09	95,015,837.07	407,412,333.76	68,421,599.07

Items provided for using other analysis as a collective group are as follows:

Group name	31-Dec-20		31-Dec-19	
	Amount	Bad debt	Amount	Bad debt
Others	367,561,619.91	11,975,840.90	520,937,641.03	27,583,619.25
<b>Total</b>	367,561,619.91	11,975,840.90	520,937,641.03	27,583,619.25

## (3) On December 31, 2020, the top five units of the amount of accounts receivable are as follows:

Customer Name	Relationship with the company	Closing balance
Fujian Hengtong Guidu International Hotel Management Co., Ltd	Non-related parties	170,000,000.00
Jinan Sijian Group Co., Ltd.	Non-related parties	84,230,780.92
Shouguang Shengrong Ecological Agriculture Technology Development Co., Ltd	Non-related parties	34,000,000.00
Liaocheng Zhougonghe Agricultural Batch Market Management Service Co., Ltd	Non-related parties	34,000,000.00
Yantai Laishan Economic Development Zone Management Committee	Non-related parties	20,000,000.00
<b>Total</b>		342,230,780.92

## 8.5 Accounts receivables financing

Items	31-Dec-20	31-Dec-19
Notes receivable	256,811,240.51	
<b>Total</b>	<b>256,811,240.51</b>	

## 8.6 Advances to suppliers

### (1) General category

Items	31-Dec-20	31-Dec-19
Within one year□Including one year□	2,845,765,750.74	2,157,583,430.91
1-2 year□Including two years□	850,306,165.52	1,096,932,829.90
2-3 year□Including three years□	846,424,322.38	446,143,428.44
Over 3 years	871,547,005.68	1,312,850,952.25
<b>Total</b>	<b>5,414,043,244.32</b>	<b>5,013,510,641.50</b>

### (2) The top five suppliers with the biggest balances:

Name	Relationship with the company	31-Dec-20	Percentage of total prepayments (%)
Jinan Shizhong Holding Group Co., Ltd	Non-related parties	1,200,000,000.00	22.16
Jinan natural resources and Planning Bureau	Non-related parties	790,270,000.00	14.60
Hedong District Finance Bureau of Linyi City	Non-related parties	411,734,015.00	7.60
Qingdao Jieneng Steam Turbine Group Co., Ltd.	Non-related parties	381,300,000.00	7.04
Linyi City Lanshan District Qiligou District Development and Construction Headquarters	Non-related parties	300,492,545.11	5.55
<b>Total</b>		<b>3,083,796,560.11</b>	<b>56.95</b>

(3) There are no advances to suppliers to related parties at the balance sheet date.

(4) There was no foreign currency balance in the balance of advances to suppliers at the balance sheet date.

## 8.7 Other receivables

Items	31-Dec-20	31-Dec-19
Interest receivable	97,080,810.97	13,572,310.68
Dividend receivable	3,058,587.81	4,238,600.03
Other receivables	6,338,557,972.25	6,454,520,321.42
<b>Total</b>	<b>6,438,697,371.03</b>	<b>6,472,331,232.13</b>

### 1. Interest receivable

## General category

Items	31-Dec-20	31-Dec-19
Fixed time deposit	1,269,136.35	6,609,582.03
Entrusted loan	5,443,068.85	5,421,895.31
Others	90,368,605.77	1,540,833.34
<b>Total</b>	<b>97,080,810.97</b>	<b>13,572,310.68</b>

## 2. Dividend receivable

Name of Invested company	31-Dec-20	31-Dec-19
Shandong Luxin Ruihao film and Television Co., Ltd	3,058,587.81	
Guotai Junan Securities Co.,Ltd.		4,238,600.03
<b>Total</b>	<b>3,058,587.81</b>	<b>4,238,600.03</b>

## 3. Other receivables

Category	31-Dec-20			
	Book balance		Bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and subject to separate provision	600,685,426.09	8.11	549,964,631.09	91.56
Items as a credit risk collective group	6,721,813,670.38	90.74	512,213,389.36	7.62
Individually insignificant but provision for bad debts individually	85,020,654.44	1.15	6,783,758.21	7.98
<b>Total</b>	<b>7,407,519,750.91</b>	<b>100.00</b>	<b>1,068,961,778.66</b>	<b>14.43</b>

(Continued)

Category	31-Dec-19			
	Book balance		Bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and subject to separate provision	4,476,205,316.19	61.46	44,740,521.66	1.00
Items as a credit risk collective group	2,735,684,124.26	37.56	780,063,557.63	28.51
Individually insignificant but provision for bad debts individually	70,947,828.16	0.98	3,512,867.90	4.95
<b>Total</b>	<b>7,282,837,268.61</b>	<b>100.00</b>	<b>828,316,947.19</b>	<b>11.37</b>

## (1) Items as a credit risk collective group

Items provided for using an aging analysis as a collective group are as follows:

Items	31-Dec-20		31-Dec-19	
	Amount	Bad debt	Amount	Bad debt
Within one year(including one year)	5,477,426,640.41	265,079,073.66	1,368,750,366.43	317,762,214.38
1-2 year(including two	526,142,696.52	18,993,420.02	219,850,570.80	38,164,260.34



years)				
2-3 year(including three years)	178,633,153.17	37,173,776.79	191,039,245.60	55,406,663.50
Over 3 years	222,850,100.23	190,933,649.61	370,101,951.40	368,719,159.67
<b>Total</b>	<b>6,405,052,590.33</b>	<b>512,179,920.08</b>	<b>2,149,742,134.23</b>	<b>780,052,297.89</b>

Items provided for using other analysis as a collective group are as follows:

Group name	31-Dec-20		31-Dec-19	
	Amount	Bad debt	Amount	Bad debt
Others	316,761,080.05	33,469.28	585,941,990.03	11,259.74
<b>Total</b>	<b>316,761,080.05</b>	<b>33,469.28</b>	<b>585,941,990.03</b>	<b>11,259.74</b>

(2) The top five customers with the biggest balances:

Name	Nature	Relationship with the company	Amount
Finance Bureau of Jinzhou Economic and Technological Development Zone	Intercourse funds	Non-related parties	233,690,522.07
Qingdao Hengdaxin investment management company	Intercourse funds	Non-related parties	45,496,000.00
Pingan International Financing Lease (Tianjin) Co., Ltd.	Cash deposit	Non-related parties	38,000,000.00
Harbin Housing Real Estate Guarantee Co., Ltd.	Cash deposit	Non-related parties	36,041,279.43
Beijing Lishui Kungang Investment Co., Ltd	Intercourse funds	Non-related parties	24,218,774.37
<b>Total</b>			<b>377,446,575.87</b>

## 8.8 Inventories

Items	31-Dec-20			31-Dec-19		
	<u>Book balance</u>	<u>Provision for devalued inventory</u>	<u>Book value</u>	<u>Book balance</u>	<u>Provision for devalued inventory</u>	<u>Book value</u>
Raw Materials	5,987,092.72	1,177,296.33	4,809,796.39	112,414,997.04	1,870,295.40	110,544,701.64
Self-made semi-finished goods and goods in progress	55,642,505.96		55,642,505.96	27,122,453.72	853,083.74	26,269,369.98
Finished goods	502,251,372.41	4,480,624.06	497,770,748.35	2,113,856,316.28	5,157,309.57	2,108,699,006.71
Revolving materials (packaging materials, low-cost consumables and so on)	10,893,822.47	1,900,000.00	8,993,822.47	4,009,077.98		4,009,077.98
Development costs	34,364,234,075.91		34,364,234,075.91	33,783,104,908.61		33,783,104,908.61
Development products	14,918,352,567.96		14,918,352,567.96	11,111,798,114.19		11,111,798,114.19
Goods in transit	5,289,142.27		5,289,142.27	6,957,906.07	777,117.18	6,180,788.89

Others	172,118,673.72		172,118,673.72	119,115,090.58	119,115,090.58
<b>Total</b>	50,034,769,253.42	7,557,920.39	50,027,211,333.03	47,278,378,864.47	47,269,721,058.58

Note1: The increase of inventories mainly due to the increase in the development costs of real estate project belonging to the Lushang Health Industry Development Co.,Ltd. .

Note2: The amount of interest capitalized in the year-end balance of inventory is RMB6,471,093,935.87.

Note3: On December 31, 2020, the details of the company's inventories collateral are described in "Note 12. Contingent events".

### 8.9 Non-current assets due within one year

Items	31-Dec-20	31-Dec-19
Usus fructus	599,800,000.00	
<b>Total</b>	<b>599,800,000.00</b>	

### 8.10 Other current assets

Items	31-Dec-20	31-Dec-19
Input tax to be deducted	196,548,324.14	398,245,504.02
Prepaid taxes	1,453,623,117.31	1,532,566,359.53
Entrusted Loan	192,231,107.62	367,793,000.00
Financial product		70,000,000.00
Discounted assets		29,500,691.40
Others	63,445,733.58	55,756,420.75
<b>Total</b>	<b>1,905,848,282.65</b>	<b>2,453,861,975.70</b>

### 8.11 Loans and advances

#### (1) General Category

Items	31-Dec-20	31-Dec-19
Public loans and advances	453,050,478.10	419,335,522.23
Personal loans and advances	35,129,659.07	76,810,000.00
Subtotal	488,180,137.17	496,145,522.23
Less: loan loss provisions	13,968,551.38	59,257,866.81
<b>Net- Value</b>	<b>474,211,585.79</b>	<b>436,887,655.42</b>

#### (2) The distribution of loans and advances by way of guarantee is listed as follows:

Items	31-Dec-20		31-Dec-19	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Credit Loans			50,000.00	0.01
Guaranteed loans	230,520,000.00	47.22	97,033,026.18	19.56
Secured loans	246,150,878.10		393,262,496.05	
-Mortgage	15,650,000.00	3.21	25,180,000.00	5.08
- Pledged loans	120,595,478.10	24.70	93,982,996.05	18.94
- Warrantice + Mortgage Guarantee	48,680,400.00	9.97	22,700,000.00	4.58
- Warrantice + Pledge Guarantee	14,325,000.00	2.93	244,176,500.00	49.21

- Mortgage + Pledge Guarantee	500,000.00	0.10	1,800,000.00	0.36
-Warrandice + Pledge Guarantee + Mortgage Guarantee	46,400,000.00	9.50	5,423,000.00	1.09
Assignment of accounts receivable	11,509,259.07	2.37	5,800,000.00	1.17
<b>Total</b>	<b>488,180,137.17</b>	<b>100.00</b>	<b>496,145,522.23</b>	<b>100.00</b>

## (3) Changes in loan loss provisions:

Items	31-Dec-20	31-Dec-19
Opening Balance	59,257,866.81	18,282,696.04
Current draw		40,975,170.77
Write-off in this issue		
Turn back this issue	45,289,315.43	
- Recovery of original written off loans and advances		
- Reversal due to an increase in discounted value		
<b>Ending balance</b>	<b>13,968,551.38</b>	<b>59,257,866.81</b>

## 8.12 Debt investments

Items	31-Dec-20			31-Dec-19		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Trust Protection Fund	37,629,985.40		37,629,985.40	62,391,530.08		62,391,530.08
<b>Total</b>	<b>37,629,985.40</b>		<b>37,629,985.40</b>	<b>62,391,530.08</b>		<b>62,391,530.08</b>

## 8.13 Available-for-sale financial assets

## (1) General picture

Items	31-Dec-20		31-Dec-19	
	Book balance	Impairment provision	Book balance	Impairment provision
Debt instrument available-for-sale	577,714,776.51	4,540,900.00	1,160,094,582.67	
Equity instrument available-for-sale	678,174,357.89	11,204,319.87	879,742,853.32	541,835.85
1.Measured at fair value	226,851,830.45		473,909,816.70	
2.Measured at cost	451,322,527.44	11,204,319.87	405,833,036.62	541,835.85
<b>Total</b>	<b>1,255,889,134.40</b>	<b>15,745,219.87</b>	<b>2,039,837,435.99</b>	<b>541,835.85</b>

## (2) The major principle available-for-sale financial assets :

Name of Invested company	31-Dec-20	31-Dec-19
Binzhou Rural Commercial Bank Co., Ltd.	240,000,000.00	240,000,000.00
Sansheng culture No.1	82,000,000.00	

Name of Invested company	31-Dec-20	31-Dec-19
Qingdao Alkali Industry Development Co., Ltd	75,779,525.43	
Guotai Junan Securities Co.,Ltd.	51,064,890.00	451,685,978.87
Shandong Yellow River Delta Industrial Investment Fund Partnership	50,000,000.00	50,000,000.00
China Xuan Paper Co., Ltd	44,100,000.00	
Sansheng culture No.1 equity products	41,238,178.16	
Shandong Cultural Industry Investment Fund (limited)	36,874,090.50	
Taishan Property & Casualty Insurance Co., Ltd	30,000,000.00	30,000,000.00
Shandong Qilu Huixin Culture Development Co., Ltd	23,148,148.00	
Shandong Cultural Development Investment Fund Co., Ltd	20,000,000.00	20,000,000.00
Tai'an Hetai medical and health industry partnership (limited partnership)	17,900,000.00	
Cultural Property Exchange single trust	15,117,053.78	
Luxin Technology Co., Ltd	10,580,994.81	
Galaxy Capital Management Co., Ltd	10,481,257.60	10,481,257.60
China Everbright Bank Company Limited	5,503,015.71	5,503,015.71
Qingdao Cambridge Bay Biomedical Technology Co., Ltd	5,000,000.00	5,000,000.00
Lushang (Nanyang) Co., Ltd	4,615,200.00	
Guotai Junan Investment Management Co., Ltd	3,787,272.47	
Wuhu qixinshi film investment partnership (limited partnership)	3,129,439.18	
Shandong Baofa tumor treatment Co., Ltd	3,000,000.00	3,000,000.00
Guotai Junan Investment Management Co.,Ltd.	11,361,819.08	15,149,091.55
<b>Total</b>	<b>784,680,884.72</b>	<b>830,819,343.73</b>

#### 8.14 Held-to-maturity investments

Items	31-Dec-20			31-Dec-19		
	Amount	Impairment provision	Book value	Amount	Impairment provision	Book value
Trust products	514,000,000.00		514,000,000.00	62,000,000.00		62,000,000.00
Others	258,846,512.20	40,000,000.00	218,846,512.20	124,428,140.60		124,428,140.60
<b>Total</b>	<b>772,846,512.20</b>	<b>40,000,000.00</b>	<b>732,846,512.20</b>	<b>186,428,140.60</b>		<b>186,428,140.60</b>

#### 8.15 Long-term receivables

Items	31-Dec-20			31-Dec-19		
	Amount	Bad debt	Book value	Amount	Bad debt	Book value



Items	31-Dec-20			31-Dec-19		
	Amount	Bad debt	Book value	Amount	Bad debt	Book value
Financing lease	693,542,051.31	34,946,492.61	658,595,558.70	1,158,125,651.89	39,631,256.53	1,118,494,395.36
Among them: unrealized financing income	3,892,792.36		3,892,792.36	105,362,519.72		105,362,519.72
Instalment sales merchandise	397,434.33	397,434.33				
Instalment collection services						
Others						
<b>Total</b>	<b>693,939,485.64</b>	<b>35,343,926.94</b>	<b>658,595,558.70</b>	<b>1,158,125,651.89</b>	<b>39,631,256.53</b>	<b>1,118,494,395.36</b>

## 8.16 Long-term equity investments

### (1) General Category

Items	31-Dec-20	31-Dec-19
Long-term equity investment	1,713,079,074.75	794,495,742.83
Long-term equity investment impairment provisions	193,990,989.91	182,558,066.81
Net long-term equity investments	1,519,088,084.84	611,937,676.02

### (2) Details of closing balances of major long-term equity investments

Name of invested Company	31-Dec-20	31-Dec-19
Linyi Jinqin Real Estate Development Co., Ltd	278,403,720.56	125,648,153.24
Shandong Cultural Development Investment Fund Co., Ltd	212,684,720.39	
Qilu Zhongtai Capital Management Co., Ltd.	122,693,821.88	124,651,102.31
Great Wall Qilu Restaurant Investment Management Co.,Ltd.	100,291,490.56	100,291,490.56
Shandong Bausch & Fung Freda Pharmaceutical Co., Ltd.	113,772,286.43	89,809,896.66
Jinan Yinsheng Taibosheng Real Estate Co., Ltd	48,538,730.32	54,783,284.66
Hainan Renfa Company	34,900,000.00	34,900,000.00
Shandong Riyu Food Co., Ltd.	28,916,304.65	27,178,133.85
Linyi Shangcheng Real Estate Co., Ltd.	17,139,177.29	16,812,082.33
Jinping Fuyuan Mining Co., Ltd.	110,014,556.00	10,000,000.00
<b>Total</b>	<b>1,067,354,808.08</b>	<b>584,074,143.61</b>

## 8.17 Other equity instruments investments

### (1) Details

Items	31-Dec-20			31-Dec-19		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Other equity instruments investments						
Other equity instruments investments	110,750,000.00	750,000.00	110,000,000.00	90,750,000.00	750,000.00	90,000,000.00
Measured at fair value						
Measured at cost	110,750,000.00	750,000.00	110,000,000.00	90,750,000.00	750,000.00	90,000,000.00
<b>Total</b>	<b>110,750,000.00</b>	<b>750,000.00</b>	<b>110,000,000.00</b>	<b>90,750,000.00</b>	<b>750,000.00</b>	<b>90,000,000.00</b>

### (2) Other equity instruments investments measured at cost at the end of the period

Name of invested Company	Book balance				Impairment provision				Proportion of shares (%)	Cash dividend of the current period
	31-Dec-19	Increase	Decrease	31-Dec-20	31-Dec-19	Increase	Decrease	31-Dec-20		
Jinan bimian Real Estate Co., Ltd	90,000,000.00			90,000,000.00					15.00	
Zhuhai Longmen furida equity investment fund (limited partnership)		20,000,000.00		20,000,000.00					20.00	
Guilin Department Store Co., Ltd	750,000.00			750,000.00	750,000.00			750,000.00	0.65	
<b>Total</b>	<b>90,750,000.00</b>	<b>20,000,000.00</b>		<b>110,750,000.00</b>	<b>750,000.00</b>			<b>750,000.00</b>		

## 8.18 Investment properties

Items	31-Dec-19	Increase			Decrease		31-Dec-20
		Purchase	Transfer in of self use real estate or inventory	Profit and loss from changes in fair value	Disposal	Transfer to self use real estate	
<b>Total original cost</b>	5,456,161,371.88	173,368,761.19		51,661,709.55			5,681,191,842.62
Including: Building and Construction	4,438,753,452.63	173,368,761.19		51,661,709.55			4,663,783,923.37
Land-use right	1,017,407,919.25						1,017,407,919.25
<b>Total changes in fair value</b>	1,196,535,302.29	139,153,793.84		-28,457,269.27			1,307,231,826.86
Including: Building and Construction	942,800,414.09	139,153,793.84		-28,344,668.23			1,053,609,539.70
Land-use right	253,734,888.20			-112,601.04			253,622,287.16

Items	31-Dec-19	Increase			Decrease		31-Dec-20
		Purchase	Transfer in of self use real estate or inventory	Profit and loss from changes in fair value	Disposal	Transfer to self use real estate	
Total book value	6,652,696,674.17	312,522,555.03		23,204,440.28			6,988,423,669.48
Including: Building and Construction	5,381,553,866.72	312,522,555.03		23,317,041.32			5,717,393,463.07
Land-use right	1,271,142,807.45			-112,601.04			1,271,030,206.41

## 8.19 Fixed assets

Items	31-Dec-20	31-Dec-19
Fixed assets	10,097,256,845.38	9,255,785,209.05
Disposal of fixed assets		
<b>Total</b>	<b>10,097,256,845.38</b>	<b>9,255,785,209.05</b>

### (1) Fixed assets

Items	31-Dec-19	Increase	Decrease	31-Dec-20
<b>Total original cost</b>	15,100,858,492.29	2,421,996,354.45	552,214,618.85	16,970,640,227.89
Building and Construction	11,642,244,162.80	1,413,909,369.76	107,373,140.01	12,948,780,392.55
Machinery equipment	1,196,161,121.96	329,574,572.20	22,917,855.78	1,502,817,838.38
Electrical equipment	981,816,535.18	290,966,624.58	122,836,120.14	1,149,947,039.62
Transportation	136,375,255.44	155,713,201.70	105,463,635.36	186,624,821.78
Office equipment	22,868,651.13	88,820,270.89	30,403,049.09	81,285,872.93
Other equipment	1,121,392,765.78	143,012,315.32	163,220,818.47	1,101,184,262.63
<b>Total accumulated depreciation</b>	5,845,045,718.24	1,383,622,751.29	356,346,242.52	6,872,322,227.01
Building and Construction	3,724,555,756.91	750,566,469.11	31,658,091.86	4,443,464,134.16
Machinery equipment	745,943,323.41	151,138,614.86	13,460,088.02	883,621,850.25
Electrical equipment	626,951,778.92	149,448,405.44	70,822,639.25	705,577,545.11
Transportation	81,345,710.81	125,505,182.13	80,520,246.74	126,330,646.20
Office equipment	22,706,626.69	66,346,372.12	29,504,959.97	59,548,038.84
Other equipment	643,542,521.50	140,617,707.63	130,380,216.68	653,780,012.45
<b>Total provision for impairment</b>	27,565.00	1,033,590.50		1,061,155.50
Building and Construction	27,565.00			27,565.00
Machinery equipment				
Electrical equipment		1,329.66		1,329.66
Transportation		924,043.84		924,043.84
Office equipment				
Other equipment		108,217.00		108,217.00
<b>Total book value</b>	<b>9,255,785,209.05</b>			<b>10,097,256,845.38</b>

Items	31-Dec-19	Increase	Decrease	31-Dec-20
Building and Construction	7,917,660,840.89			8,505,288,693.39
Machinery equipment	450,217,798.55			619,195,988.13
Electrical equipment	354,864,756.26			444,368,164.85
Transportation	55,029,544.63			59,370,131.74
Office equipment	162,024.44			21,737,834.09
Other equipment	477,850,244.28			447,296,033.18

(2) As of December 31, 2020, there is no fixed assets under financing lease.

(3) As of December 31, 2020, Some fixed assets have obvious signs of impairment, so the provision for impairment of fixed assets is RMB1,061,155.50.

(4) The original value of fixed assets includes the housing built with the funds raised by the staff, which is built with the funds raised by the staff and is currently used as the accommodation for the staff.

As of December 31, 2020, the property right of the asset has not been handled.

## 8.20 Construction in progress

Items	31-Dec-20		31-Dec-19	
	Book balance	Impairment provision	Book balance	Impairment provision
520 tons of medical grade sodium hyaluronate and its derivatives project	19,512,880.04			
Comprehensive production workshop project of biomedical industrial park	118,249,821.67			
New extraction workshop and pretreatment workshop project	57,930,484.49		11,801,025.45	
Kekedala Lavender Culture Industrial Park	24,148,333.93			
Teaching building and cooking training building of City Service College	327,555,230.42		214,929,292.01	
Qilu Medical College New Campus Construction	69,708,071.75		4,300,383.16	
Dormitory building, training building, etc	163,736,527.98		149,650,700.74	
Tianmeng tourism area development project of culture and Tourism Group	242,909,575.90			
Jiunvfeng comprehensive service center project	76,310,628.93			
Cloud project of hometown	55,929,708.74			
Xintai Lianhuashan project	35,132,417.53			
Reconstruction project of No.4 Hospital of Shanshi East Road	12,151,149.24			
Others	133,781,274.64	668,396.81	126,705,211.22	668,396.81
Construction materials	18,791,852.17		3,272,333.16	

<b>Total</b>	1,355,847,957.43	668,396.81	510,658,945.74	668,396.81
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## 8.21 Intangible assets

Items	31-Dec-19	Increase	Decrease	31-Dec-20
<b>Total original cost</b>	3,234,267,468.65	3,140,427,683.61	247,618,427.96	6,127,076,724.30
Software	399,559,956.16	66,258,960.16	223,967,193.74	241,851,722.58
Land use rights	2,807,842,686.00	3,028,899,954.69		5,836,742,640.69
Patent	1,502,615.54	18,163,091.94	1,072,615.54	18,593,091.94
Nonpatented technology	304,106.69	293,600.00		597,706.69
Trademark rights	300,240.29	6,126,015.47		6,426,255.76
Copyright	660,000.00	20,655,393.07	660,000.00	20,655,393.07
Chartered right	24,097,863.97	30,668.28	21,918,618.68	2,209,913.57
<b>Total amortization</b>	829,368,852.20	244,923,064.81	34,336,791.53	1,039,955,125.48
Software	136,842,071.13	38,862,946.68	16,727,892.04	158,977,125.77
Land use rights	676,089,089.59	195,740,217.02		871,829,306.61
Patent	430,000.00	1,198,324.44	897,664.10	730,660.34
Nonpatented technology	202,654.79	47,218.30		249,873.09
Trademark rights	239,633.52	2,195,557.62		2,435,191.14
Copyright	601,666.14	5,145,698.11	601,666.14	5,145,698.11
Chartered right	14,963,737.03	1,733,102.64	16,109,569.25	587,270.42
<b>Total provision for impairment</b>	2,381,119.50	8319.22		2,389,438.72
Software		8,319.22		8,319.22
Land use rights	2,381,119.50			2,381,119.50
Patent				
Nonpatented technology				
Trademark rights				
Copyright				
Chartered right				
<b>Total book value</b>	2,402,517,496.95			5,084,732,160.10
Software	262,717,885.03			82,866,277.59
Land use rights	2,129,372,476.91			4,962,532,214.58
Patent	1,072,615.54			17,862,431.60
Nonpatented technology	101,451.90			347,833.60
Trademark rights	60,606.77			3,991,064.62
Copyright	58,333.86			15,509,694.96
Chartered right	9,134,126.94			1,622,643.15

## 8.22 Development expenses

Items	31-Dec-19	Increase		Decrease			31-Dec-20
		Internal development expenses	Others	Recognized as intangible assets	Transferred to current profit and loss	Others	

Development project of multifunctional automatic Apple Juicer vending machine			7,697,402.11				7,697,402.11
FRD1911 patch research and development project	1,747,572.82		204,153.82				1,951,726.64
The second development of human resource system			297,169.81				297,169.81
Zhusen intellectual property	258,180.14						258,180.14
Software development of big data platform construction project		141,509.43					141,509.43
Research expenditure		96,893.20					96,893.20
Lu shang yun Intelligent Technology Service Center			60,058.10				60,058.10
<b>Total</b>	<b>2,005,752.96</b>	<b>238,402.63</b>	<b>8,258,783.84</b>				<b>10,502,939.43</b>

### 8.23 Goodwill

Items	31-Dec-19	Increase	Decrease	31-Dec-20
Goodwill	1,920,469,689.18	166,658,735.83		2,087,128,425.01
<b>Total</b>	<b>1,920,469,689.18</b>	<b>166,658,735.83</b>		<b>2,087,128,425.01</b>

### 8.24 Long-term prepaid expenses

Items	31-Dec-19	Increase	Decrease	Including: amortization	31-Dec-20
Dongying Dongcheng Ginza Plaza Project	17,387,480.04		801,039.27	801,039.27	16,586,440.77
Renovation costs	72,856,004.88	141,510,166.54	61,417,892.92	61,417,892.92	152,948,278.50
Consulting fee, underwriting fee	45,890,786.21		30,930,155.31	30,930,155.31	14,960,630.90
Rental fees	47,918,006.23	37,585,170.23	50,146,406.66	17,146,406.66	35,356,769.80
Rental fixed assets improvement expenditure	480,380,408.03	218,033,801.16	179,668,191.27	170,870,588.56	518,746,017.92
Others	35,151,467.17	81,037,562.25	37,415,467.05	25,727,426.16	78,773,562.37
<b>Total</b>	<b>699,584,152.56</b>	<b>478,166,700.18</b>	<b>360,379,152.48</b>	<b>306,893,508.88</b>	<b>817,371,700.26</b>



**8.25 Deferred income tax assets**

Items	31-Dec-20	31-Dec-19
Deferred income tax assets arising from the difference between the book value and the tax base of assets	182,146,570.82	125,557,095.84
Deferred income tax assets arising from the difference between the book value and the tax base of liabilities	108,576,518.71	140,947,728.97
Deductible loss	32,371,061.69	70,932,271.79
Others	82,096,072.41	105,409,337.54
<b>Total</b>	<b>405,190,223.63</b>	<b>442,846,434.14</b>

**8.26 Other non-current assets**

Items	31-Dec-20	31-Dec-19
Prepaid taxes	8,417,055.36	8,067,224.73
Advance payment for land	35,869,603.06	35,869,603.06
Prepaid equipment	9,368,505.55	6,011,917.31
Loans	625,773,965.63	395,140,000.00
Others	176,508,468.47	47,190,668.21
Subtotal	855,937,598.07	492,279,413.31
Impairment preparation	4,962,065.64	3,787,100.00
<b>Total</b>	<b>850,975,532.43</b>	<b>488,492,313.31</b>

**8.27 Short-term loans**

Items	31-Dec-20	31-Dec-19
Mortgage loan	2,385,970,000.00	1,093,000,000.00
Guaranteed loan	8,866,823,700.0	9,130,925,248.16
Credit loan	3,019,555,474.45	2,518,350,000.00
Pledge loan	1,199,580,000.00	1,233,460,000.00
<b>Total</b>	<b>15,471,929,174.45</b>	<b>13,975,735,248.16</b>

**8.28 Notes payable**

Items	31-Dec-20	31-Dec-19
Bank acceptance bills	5,476,361,159.71	4,358,957,312.79
Commercial acceptance bills	1,426,428,523.48	1,418,887,721.56
<b>Total</b>	<b>6,902,789,683.19</b>	<b>5,777,845,034.35</b>

**8.29 Accounts payable**

Items	31-Dec-20	31-Dec-19
Accounts payable	10,144,752,682.06	9,161,847,545.95

Note 1: There is no balance of accounts payable in foreign currencies.

**8.30 Advances from customers**

Items	31-Dec-20	31-Dec-19
Advances from customers	2,012,495,083.54	672,848,780.94

**8.31 Contract liabilities**

Items	31-Dec-20	31-Dec-19
Advance payment for goods	18,589,172,001.59	16,428,963,583.75
Bonus points for members	10,750,640.24	7,305,731.68
<b>Total</b>	<b>18,599,922,641.83</b>	<b>16,436,269,315.43</b>

**8.32 Financial assets sold for repurchase**

Items	31-Dec-20	31-Dec-19
Pledge-style Repo	340,150,000.00	880,000,000.00
<b>Total</b>	<b>340,150,000.00</b>	<b>880,000,000.00</b>

**8.33 Absorption of deposits and interbank deposit**

Items	31-Dec-20	31-Dec-19
Company demand deposit	2,827,552.25	
<b>Total</b>	<b>2,827,552.25</b>	

**8.34 Employee remuneration payable****(1) General picture**

Items	31-Dec-20	31-Dec-19
1.Short-term employee benefits	525,473,764.79	405,604,033.67
2.Post-employment benefits-defined contribution plan	9,937,857.80	4,970,529.92

Items	31-Dec-20	31-Dec-19
3.Termination benefits	2,086,340.22	2,620,033.63
4. Other benefits due within one year		
5. Others		
<b>Total</b>	<b>537,497,962.81</b>	<b>413,194,597.22</b>

## (2) Short-term employment benefits

Items	31-Dec-20	31-Dec-19
1.Employee Salaries and wages, bonus, allowance and subsidies	199,193,521.58	146,491,756.65
2. Staff welfare expense	953,623.76	562,244.34
3. Social insurance expenses	345,675.42	478,105.98
Inc:		
Medical insurance premium	301,558.62	429,474.47
Work-related injury insurance premium	29,769.12	18,688.49
Maternity insurance premium	14,347.68	29,943.02
Others		
4.Housing fund	1,165,057.64	1,263,751.71
5. Labor union expenditures and employee education expenses	318,810,089.72	256,433,913.35
6.Short-term paid absence	3,806,846.12	
7.Short-term profit-sharing plan		
8.Others	1,198,950.55	374,261.64
<b>Total</b>	<b>525,473,764.79</b>	<b>405,604,033.67</b>

## (3) Defined contribution plan

Items	31-Dec-20	31-Dec-19
1.Basic pension insurance	8,104,125.25	4,772,092.40
2.Unemployment insurance	421,188.29	183,685.08
3.Corporate annuity contribution	1,412,544.26	14,752.44
<b>Total</b>	<b>9,937,857.80</b>	<b>4,970,529.92</b>

## 8.35 Taxes and surcharges payable

Items	31-Dec-20	31-Dec-19
VAT	111,923,078.42	409,225,440.70

Items	31-Dec-20	31-Dec-19
Business tax	22,324,289.70	17,814,746.90
Consumption tax	5,353,232.79	5,013,194.96
Corporate income tax	345,336,244.06	179,046,361.84
City maintenance and construction tax	19,271,175.88	5,964,629.83
Property tax	36,122,811.10	36,247,945.77
Personal Income Tax	9,536,789.54	7,402,155.63
Land holding tax	90,878,574.65	13,091,063.13
Land appreciation tax	600,527,344.62	268,936,179.19
Additional education fee	9,528,953.84	4,947,975.10
Other taxes	17,936,525.06	11,516,425.82
<b>Total</b>	<b>1,268,739,019.66</b>	<b>959,206,118.87</b>

### 8.36 Other payables

Items	31-Dec-20	31-Dec-19
Interest payable	167,159,334.89	171,392,078.33
Dividend payable	59,840,236.29	48,187,327.97
Other payables	8,561,626,358.63	6,823,564,261.79
<b>Total</b>	<b>8,788,625,929.81</b>	<b>7,043,143,668.09</b>

#### (1) Interest payable

Items	31-Dec-20	31-Dec-19
Interest of loan	38,348,446.22	47,061,404.36
Interest of corporation bond	128,810,888.67	124,330,673.97
<b>Total</b>	<b>167,159,334.89</b>	<b>171,392,078.33</b>

#### (2) Dividend payable

Items	31-Dec-20	31-Dec-19
Common stock	59,840,236.29	48,187,327.97
<b>Total</b>	<b>59,840,236.29</b>	<b>48,187,327.97</b>

#### (3) Other payables

Items	31-Dec-20	31-Dec-19
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Items	31-Dec-20	31-Dec-19
Other payables	8,561,626,358.63	6,823,564,261.79
<b>Total</b>	<b>8,561,626,358.63</b>	<b>6,823,564,261.79</b>

### 8.37 Non-current liabilities maturing within one year

Items	31-Dec-20	31-Dec-19
Long-term loans due within one year	5,585,813,543.11	4,516,794,853.95
Bond payable due within one year	9,171,209,709.45	5,300,000,000.00
Long-term payable due within one year	877,096,793.22	
Long-term loan interest payable	5,438,594.89	831,706.94
<b>Total</b>	<b>15,639,558,640.67</b>	<b>9,817,626,560.89</b>

Note: There are no overdue loans in long-term loans due within one year.

### 8.38 Other current liabilities

Items	31-Dec-20	31-Dec-19
Entrusted loan	120,000,000.00	29,409,666.66
Output tax to be transferred	598,756,133.17	516,425,605.53
Others	8,378,515.00	-
<b>Total</b>	<b>727,134,648.17</b>	<b>545,835,272.19</b>

### 8.39 Long-term loans

Items	31-Dec-20	31-Dec-19
Credit loan	503,000,000.00	953,365,900.00
Mortgage loan	1,701,750,000.00	351,500,000.00
Guaranteed loan	3,471,697,176.68	3,623,388,372.08
Mortgage+ Guaranteed loan	2,252,352,738.48	3,108,150,000.00
Pledge loan	18,990,000.00	380,000,000.00
<b>Total</b>	<b>7,947,789,915.16</b>	<b>8,416,404,272.08</b>

Note: As of December 31, 2020, there is no overdue loan in long-term loans.

### 8.40 Bonds payable

#### 1. Bonds payable

Item	31-Dec-20	31-Dec-19
Medium and Long-term bonds	3,925,387,404.61	7,046,143,024.16
<b>Total</b>	<b>3,925,387,404.61</b>	<b>7,046,143,024.16</b>

#### 8.41 Long-term payable

Item	31-Dec-20	31-Dec-19
Long-term payable	1,643,939,342.21	2,034,855,687.34
Special accounts payable	66,167,970.82	41,937,789.74
<b>Total</b>	<b>1,710,107,313.03</b>	<b>2,076,793,477.08</b>

##### 1. Long-term payable

Item	31-Dec-20	31-Dec-19
Financing lease	1,627,804,962.21	1,938,521,307.34
Long-term intercourse loans		80,200,000.00
Others	16,134,380.00	16,134,380.00
<b>Total</b>	<b>1,643,939,342.21</b>	<b>2,034,855,687.34</b>

##### 2. Special accounts payable

Items	31-Dec-20	31-Dec-19
Dial in special funds	65,667,970.82	26,063,000.86
Research funds	500,000.00	2,729,654.83
Others		13,145,134.05
<b>Total</b>	<b>66,167,970.82</b>	<b>41,937,789.74</b>

#### 8.42 Long-term employee remuneration payable

Items	31-Dec-19	Increase	Decrease	31-Dec-20
1. Post-employment benefits				
Inc: net liability of defined benefits plan				
2. Termination benefits	4,179,650.75		1,504,228.58	2,675,422.17
3. Other long-term benefits				
Inc: long-term disability benefits				
<b>Total</b>	<b>4,179,650.75</b>		<b>1,504,228.58</b>	<b>2,675,422.17</b>



## 8.43 Estimated liabilities

Items	31-Dec-20	31-Dec-19
Unexpired liability reserve		3,114,179.48
Guaranteed compensation reserve	5,818,337.41	
Pending litigation	36,000,000.00	51,407,413.56
<b>Total</b>	<b>41,818,337.41</b>	<b>54,521,593.04</b>

## 8.44 Deferred income

Items	31-Dec-20	31-Dec-19
Government grant	203,287,517.28	188,039,781.00
<b>Total</b>	<b>203,287,517.28</b>	<b>188,039,781.00</b>

## 8.45 Deferred income tax liabilities

Items	31-Dec-20		31-Dec-19	
	Temporary differences	Deferred tax liabilities	Temporary differences	Deferred tax liabilities
Assessment of value added	1,846,910,460.31	458,283,927.27	1,776,456,406.08	444,114,101.52
Depreciation and amortization	28,842,501.09	7,210,625.27	248,991.80	62,247.95
Changes in fair value of available-for-sale financial assets recorded into other comprehensive income	101,053,568.76	25,263,392.19	566,411,295.40	141,602,823.85
Others	273,376,371.20	68,334,705.23	15,618,473.00	3,904,618.25
<b>Total</b>	<b>2,250,182,901.36</b>	<b>559,092,649.96</b>	<b>2,358,735,166.28</b>	<b>589,683,791.57</b>

## 8.46 Paid-in capital

Items	31-Dec-19	Increase	Decrease	31-Dec-20
State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government	854,000,000.00			854,000,000.00
Shandong Guohui Investment Co., Ltd	244,000,000.00			244,000,000.00
Shandong Provincial Social Security Fund Council	122,000,000.00			122,000,000.00
Shandong Province Commercial Group Co., Ltd. (Institutional Organization)	877,767,489.50			877,767,489.50
<b>Total</b>	<b>2,097,767,489.50</b>			<b>2,097,767,489.50</b>

## 8.47 Other equity instruments

Items	31-Dec-20	31-Dec-19
Perpetual bond	3,860,178,377.36	5,910,178,377.36
<b>Total</b>	<b>3,860,178,377.36</b>	<b>5,910,178,377.36</b>

## 8.48 Capital reserves

Items	31-Dec-19	Increase	Decrease	31-Dec-20	Note
Capital (stock) premium	483,822,861.70			483,822,861.70	
Others	134,685,957.52	483,811,733.83	102,363,037.25	516,134,654.10	
<b>Total</b>	<b>618,508,819.22</b>	<b>483,811,733.83</b>	<b>102,363,037.25</b>	<b>999,957,515.80</b>	

## 8.49 Other comprehensive income

Items	31-Dec-19	2020	31-Dec-20
I. Other comprehensive income that cannot be reclassified into profit or loss in the future			
II. Other comprehensive income that will be reclassified into profit or loss in the future	324,087,164.43	-224,220,346.50	99,866,817.93
Including: Shares of other comprehensive income that will be reclassified into profit or loss after the investee in the equity method			
Changes in fair value of available-for-sale financial assets	247,593,226.55	-226,369,813.33	21,223,413.22
Translation differences in foreign currency financial statements	3,421,319.33	2,149,466.83	5,570,786.16
Others	73,072,618.55		73,072,618.55
<b>Total other comprehensive income</b>	<b>324,087,164.43</b>	<b>-224,220,346.50</b>	<b>99,866,817.93</b>

## 8.50 Special reserves

Items	31-Dec-19	Increase	Decrease	31-Dec-20	Notes
Price stabilize funds		41,728.99		41,728.99	
<b>Total</b>		<b>41,728.99</b>		<b>41,728.99</b>	

### 8.51 Surplus reserves

Items	31-Dec-19	Increase	Decrease	31-Dec-20
Statutory surplus reserve	569,163,754.33	46,341,788.62		615,505,542.95
<b>Total</b>	569,163,754.33	46,341,788.62		615,505,542.95

### 8.52 Undistributed profits

Items	31-Dec-20	31-Dec-19
<b>Opening balance</b>	2,532,492,968.45	2,539,544,828.17
Add: Adjustment due to changes in accounting policies		2,205,078.10
Corrections of prior period errors		
Adjusted opening balance	2,532,492,968.45	2,541,749,906.27
Changes in current year	-619,214,167.44	-9,256,937.82
Inc: Net income(or losses )	267,054,631.04	389,336,680.64
Other increases	-387,629,915.65	
Distribution to owners (or shareholders)	-452,377,868.07	444,979,671.14
Withdrawal surplus reserves	46,350,626.49	-46,608,914.26
Withdrawal generic risk reserve	-89,611.73	222,861.58
Owner's equity internal transfer		
Other reductions		
<b>Ending balance</b>	1,913,278,801.01	2,532,492,968.45

### 8.53 Operating income and operating cost

#### (1) Operating income and operating cost

Items	2020	2019
Main Operating income	33,816,977,503.08	37,528,255,434.80
Other operating income	1,888,501,609.35	2,238,927,430.48
Interest income	93,149,360.67	64,043,236.11
Fee and commission income	3,472,353.12	1,621,107.51
<b>Total</b>	35,802,100,826.22	39,832,847,208.90
Main Operating cost	26,997,787,699.39	31,056,939,394.19
Other operating costs	355,378,604.04	428,106,654.29
Interest expenses	84,525,969.15	23,190,801.36
Commission and commission expenses	967,583.69	729,689.07

Items	2020	2019
Total	27,438,659,856.27	31,508,966,538.91

## (2) Constitution of main operating income

Items	2020		2019	
	Main Operating income	Main Operating cost	Main Operating income	Main Operating cost
Real estate sales	11,608,158,530.22	9,907,563,308.42	8,846,644,555.64	7,458,824,801.09
Business	12,998,253,739.67	10,101,539,099.82	17,742,479,099.56	15,384,395,873.63
Car sales	4,671,743,807.65	4,553,482,570.70	5,107,586,066.71	4,963,336,548.06
Medicine	557,902,177.40	228,003,704.32	912,601,160.61	326,126,487.89
Property	5,907,932.56	3,728,935.45	78,237,821.92	77,936,584.23
Financial Services	799,600,267.65	482,129,532.91	971,361,193.28	541,542,672.31
Educational services	1,200,594,990.96	747,799,035.01	1,019,672,857.95	668,395,592.51
Pharmaceutical R&D and Design	107,537,229.72		172,111,169.94	
Others	1,867,278,827.25	973,541,512.76	2,677,561,509.19	1,636,380,834.47
Total	33,816,977,503.08	26,997,787,699.39	37,528,255,434.80	31,056,939,394.19

## 8.54 Taxes and surcharges

Items	2020	2019
Business tax	45,251,754.22	45,357,495.57
City maintenance and construction tax	85,573,496.09	63,051,879.76
Additional education fee	41,632,333.33	30,535,241.78
Local education surcharges	20,136,597.84	14,891,859.39
Property tax (Investment properties)	114,889,336.70	131,763,624.75
Land use tax (Investment properties)	22,797,794.40	24,045,755.13
Water conservancy construction fund	7,359,048.07	3,936,386.94
Consumption tax	41,130,778.09	53,998,017.50
Land appreciation tax	659,589,908.09	542,026,782.11
Vehicle and vessel tax	70,002.00	97,860.71
Stamp duty	18,989,842.53	17,784,692.35
Others	18,769,713.61	5,134,978.93
Total	1,076,190,604.97	932,624,574.92

## 8.55 Selling expenses

Items	2020	2019
Shipping fee	3,049,797.65	27,621,189.60

Items	2020	2019
Travel expense	13,965,315.62	19,213,189.08
Sales service fee	388,552,527.75	98,207,389.82
Business Hospitality	4,617,986.74	6,177,090.01
Employee's salary	1,593,573,098.99	1,585,926,617.96
Advertising and promotion fees	560,464,826.70	457,738,162.59
Conference fees	2,331,848.98	6,093,269.11
Office fee	29,743,309.10	9,550,421.25
Rental fees	616,092,011.75	557,303,148.35
Energy costs	259,489,152.90	283,898,877.85
Estate managing fee	221,409,142.13	197,831,130.49
Depreciation	389,523,552.89	311,843,856.90
Amortization of long-term deferred expenses	136,183,057.91	164,634,577.14
Others	82,345,404.34	440,340,623.53
<b>Total</b>	<b>4,301,341,033.45</b>	<b>4,166,379,543.68</b>

#### 8.56 General and administrative expenses

Items	2020	2019
Employee's salary	816,250,111.39	764,893,593.76
Depreciation	162,797,777.51	82,180,105.68
Repair fee	25,104,515.93	9,369,006.58
Amortisation of intangible assets	112,095,049.76	79,617,190.64
Business Hospitality	17,364,479.55	18,369,540.56
Travelling expense	15,443,087.23	18,371,738.65
Office fee	118,847,179.93	29,723,969.45
Conference fees	3,488,289.02	4,937,393.72
Agency fee	122,118,677.90	71,246,270.20
Consulting fee	9,711,273.72	2,408,902.31
Rental fees	147,915,552.50	128,015,551.16
Others	271,502,870.88	208,694,217.42
<b>Total</b>	<b>1,822,638,865.32</b>	<b>1,417,827,480.13</b>

#### 8.57 Reaserch and development expenses

Items	2020	2019
Depreciation	10,453,745.70	9,400,509.37
Amortisation of intangible assets	898,664.61	6,123,406.56

Items	2020	2019
Employee's salary	63,130,141.05	84,075,100.08
Maintenance and repair fee		734,170.46
Commodity and service expenditure	16,365,259.63	28,935,949.92
Other capital expenditure		988,525.94
Medicine item	82,716,477.40	6,656,407.71
Additive item		3,359,710.73
Cosmetics item		5,078,179.99
Others	38,549,394.97	716,175.12
<b>Total</b>	<b>212,113,683.36</b>	<b>146,068,135.88</b>

### 8.58 Financial expenses

Items	2020	2019
Interest expense	984,527,062.44	800,617,841.23
Less: Interest income	67,095,443.10	51,385,649.39
Net loss of foreign exchange	48,096,791.30	1,724,060.16
Less: Net income of foreign exchange	64,450,458.37	2,198,317.27
Service charge	228,849,475.60	223,565,981.91
Others		
<b>Total</b>	<b>1,129,927,427.87</b>	<b>972,323,916.64</b>

### 8.59 Other income

Items	2020	2019
Steady job subsidy	26,656,823.01	2,427,674.13
Government grant	148,896,466.37	74,533,476.69
Personal Income Tax service charge restitution	5,870,835.57	1,120,797.52
<b>Total</b>	<b>181,424,124.95</b>	<b>78,081,948.34</b>

### 8.60 Investment income

Sources of investment income	2020	2019
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Sources of investment income	2020	2019
Investment income from long-term equity investments recorded by equity method	209,126,837.36	162,854,353.05
Income from the disposal of long-term equity investments	2,624,738.60	355,607,217.16
Investment income from financial assets measured at fair value through current profit and loss	40,249,490.01	102,001,066.75
Investment income from disposal of financial assets measured at fair value through current profit and loss	2,756,039.75	-1,049,776.08
Investment income from investment held to maturity in the holding period	114,401,149.99	7,541,618.84
Investment income from disposal of investment held to maturity	10,379,613.83	1,209,367.67
Investment income from financial assets available for sale in the holding period	61,709,314.30	11,064,724.37
Investment income from disposal of financial assets available for sale	407,883,237.29	9,275,886.74
Interest income from debt investments in the holding period (Application of new criteria)		
Interest income from other debt investments in the holding period (Application of new criteria)		6,959,968.45
Investment income from disposal of debt investments (Application of new criteria)		
Investment income from disposal of other debt investments (Application of new criteria)	2,255,976.91	
Gain from remeasuring the stock at fair value after taking control		
Gain from remeasuring the left stock at fair value after losing control		
Dividend income from other equity instruments in the holding period (Application of new criteria)		
Others	15,558,006.04	5,965,691.80
<b>Total</b>	<b>866,944,404.08</b>	<b>661,430,118.75</b>

### 8.61 Gains from changes in fair value

Items	2020	2019
Financial assets measured at fair value through current profit and loss	303,157,814.87	139,985,045.13
Investment properties measured at fair value	19,383,886.91	-112,874,920.99
<b>Total</b>	<b>322,541,701.78</b>	<b>27,110,124.14</b>

### 8.62 Losses from credit impairment

Items	2020	2019
1.Bad debt loss	-72,052,087.44	-13,405,142.47
2.Credit impairment of debt investments		
3.Credit impairment of other debt investments		
4.Credit impairment of long-term lease receivables		
5.Credit impairment of long-term receivables (excluding long-term lease receivables)		
6.Credit impairment of contractual assets		
7.Others		

Items	2020	2019
<b>Total</b>	-72,052,087.44	-13,405,142.47

### 8.63 Losses from asset impairment

Items	2020	2019
1.Bad debt loss	-70,260,020.65	-122,885,430.60
2.Devalued inventories loss	-4,564,143.69	-4,020,472.27
3.Available-for-sale financial assets loss	-1,854,449.30	
4. Held-to-maturity investments loss	-21,121,602.68	
5.Long-term equity investment impairment loss	-13,777,705.91	-100,014,556.00
6.Other loss	44,036,302.59	-44,317,231.54
<b>Total</b>	-67,541,619.64	-271,237,690.41

### 8.64 Gain/(loss) from asset disposal

Items	2020	2019
Gains and losses on disposal of non-current assets	6,089,850.46	-24,577,676.30
Gains and losses on others		
<b>Total</b>	6,089,850.46	-24,577,676.30

### 8.65 Non-operating income

Items	2020	2019
Government Grant	11,750,678.95	12,737,360.34
Non-current asset disposal gains	285,346.96	914,488.93
Others	47,492,024.55	32,538,273.77
<b>Total</b>	59,528,050.46	46,190,123.04

### 8.66 Non-operating expenses

Items	2020	2019
Loss on disposal of non-current assets	26,161,901.03	2,937,504.50
Losses from debt restructuring	-	
Others	222,418,865.10	74,995,253.18

<b>Total</b>	248,580,766.13	77,932,757.68
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### 8.67 Income tax expenses

Items	2020	2019
Income tax expenses	627,159,701.47	459,066,546.50
<b>Total</b>	627,159,701.47	459,066,546.50

### 8.68 Regulate net profit as net flow from operating activities

#### (1) Supplementary information of cash flow statement

1. Regulate net profit as operating activity cash flow:	2020	2019
Net profit	242,423,312.04	655,249,519.65
Add: credit impairment	72,052,087.44	
Add: asset impairment	67,541,619.64	284,642,832.88
Depreciation of fixed assets, loss of oil and gas assets, and depreciation of productive biological assets	1,383,622,751.29	682,351,797.50
Amortization of intangible assets	244,923,064.81	97,749,799.21
Amortization of long-term deferred expenses	306,893,508.88	256,009,254.69
Loss of disposal of fixed assets, intangible assets and other long-term assets	-6,089,850.46	26,600,691.87
Loss of retirement of fixed assets	25,876,554.07	
Loss of fair value change	-322,541,701.78	-27,110,124.14
Financial expenses	984,527,062.44	800,617,841.23
Loss of investment	-866,944,404.08	-661,430,118.75
Deferred income tax assets decreased	37,656,210.51	-10,471,438.10
Deferred income tax liabilities increase	-30,591,141.61	10,001,052.55
Reduction of inventory	-2,756,390,388.95	-7,836,434,022.36
Reduction of operational receivables	-5,230,222,402.56	435,136,997.09
Increase in operational payables	9,839,423,632.07	7,199,442,177.19
Others		
<b>Net cash flow from operating activities</b>	<b>3,992,159,913.75</b>	<b>1,912,356,260.51</b>
<b>2. Major investment and fundraising activities that do not involve cash receipts and expenditures:</b>		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Finance leased fixed assets		
<b>3. Net changes in cash and cash equivalents:</b>		
Ending balance of cash	9,826,444,630.21	7,917,524,031.69
Less: Opening balance of cash	7,917,524,031.69	6,365,777,884.75

<b>1. Regulate net profit as operating activity cash flow:</b>	<b>2020</b>	<b>2019</b>
Plus: closing balance of cash equivalents	383,500,000.00	
Less: Opening balance of cash equivalents		
<b>Net increase in cash and cash equivalents</b>	<b>2,292,420,598.52</b>	<b>1,551,746,146.94</b>

## (2) Cash and cash equivalents

Items	31-Dec-20	31-Dec-19
I. Cash	9,826,444,630.21	7,917,524,031.69
Inc: Cash in hand	29,512,196.17	33,372,126.40
Bank deposits that can be used for payment at any time	5,891,608,637.05	4,367,560,995.99
Other currency funds that can be used to pay at any time	3,905,323,796.99	3,516,590,909.30
II. Cash equivalents	383,500,000.00	
Inc: Bond investments due within three months		
III. Balance of cash and cash equivalents at the end of the period	10,209,944,630.21	7,917,524,031.69

## Note 9 Equity in other entities

## 9.1 Subsidiaries

## 1. The composition of enterprise groups

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
1	Lushang Group Co., Ltd.	Jinan	Jinan	Investment Management	65,974.00	2	32.27	35.24	Transfer
2	Qingdao Lushang Shuke Asset Management Co., Ltd	Qingdao	Qingdao	Business services	1,000.00	3		100	Investment establishment
3	Shandong Quancheng Hotel Co. Ltd	Jinan	Jinan	Accommodation and Catering Industry	500	2	100		Investment establishment
4	Shandong lushangtong Technology Co., Ltd	Jinan	Jinan	Software and information technology services	10,000.00	2	100		Investment establishment
5	Lushang group (hong kong) limited	Hong kong	Hong kong	Trade	HK\$ 600	2	100		Equity transfer
6	Taian Lushang Intelligent Technology Co., Ltd	Taian	Taian	Research and experimental development	3,030.30	3		100	Investment establishment
7	Fuyuan International Limited	Taian	Taian		\$5	3		100	Investment establishment
8	Xinjiang yiparhan perfume Co., Ltd	Xinjiang	Xinjiang	Chemical raw materials and chemical products manufacturing	6,088.18	3		51	Equity transfer
9	Shandong Lushang furida Pension	Jinan	Jinan	Social work	10,000.00	2	100		Investment establishment

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
	Development Co., Ltd								t
10	Shandong Hongtai furida equity investment partnership (limited partnership)	Taian	Taian	Capital market services	100,000.00	2	29	26	Investment establishment t
11	Shandong Lushang Urban Rural Integration Development Co., Ltd	Jinan	Jinan	Wholesale industry	10,000.00	2	51	49	Investment establishment t
12	Shandong Fuyuan Equity Investment holding Co., Ltd.	Jinan	Jinan	Investment and consultations so on	20,000.00	2	34		Investment establishment t
13	Beijing Inzone Sozhen Culture and Arts Co., Ltd.	Beijing	Beijing	Art Investment	1,000.00	3		100	Investment establishment t
14	Shandong Inzone Wine Co., Ltd	Jinan	Jinan	business	1,000.00	3		100	Investment establishment t
15	Shandong Fuyuan Investment Co., Ltd.	Jinan	Jinan	investment	20,000.00	2	34		Investment establishment t
16	Shandong Lushang private placement (investment) Fund Management Co., Ltd	Jinan	Jinan	Capital market services	1,000.00	3		100	Investment establishment t
17	French Benoit Meyer vineyard agricultural development company	France	France	Grape growing, wine sales	1.513 million euros	5		100	Investment establishment t
18	Shandong Fuyuan Micro-credit Co., Ltd.	Jinan	Jinan	Financial industry	50,000.00	2	100		Investment establishment t
19	Shandong Etone Development Group Co., Ltd.	Jinan	Jinan	Other financial industry	86,250.00	2	74.14		Investment establishment t
20	Yitong Jinmao Information Technology Co., Ltd	Jinan	Jinan	Other financial industry	10,000.00	3		100	Investment establishment t
21	Etone Jinfu Payment Co., Ltd.	Jinan	Jinan	Prepaid cards, non-financial IC card development	30,000.00	3		100	Investment establishment t
22	Shandong Inzone Industrial Co., Ltd.	Jinan	Jinan	business	3,000.00	3		100	Investment establishment t
23	Shandong Yitong Commercial Factoring Co., Ltd.	Jinan	Jinan	Other financial industry	5,000.00	3		100	Investment establishment t
24	Etone Financial Leasing (Tianjin) Co., Ltd.	Tianjin	Tianjin	Other financial industry	100,000.00	3		100	Investment establishment t
25	Zhongyitong International Financial Leasing (Tianjin) Co., Ltd.	Tianjin	Tianjin	Other financial industry	25,000.00	3		75	Investment establishment t
26	Shandong Etone Private capital management Co., Ltd.	Jinan	Jinan	Other financial industry	30,000.00	3		100	Investment establishment t
27	Etone Insurance Economic Co., Ltd.	Jinan	Jinan	Other financial industry	5,000.00	3		100	Investment establishment t
28	Shandong Yitong	Tianjin	Tianjin	Other financial	14,000.00	3		100	Investment

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
	Commercial Factoring (Tianjin) Co., Ltd.			industry					establishment
29	Shandong Commercial Group Finance Co., Ltd.	Jinan	Jinan	Currency Financial Services	200,000.00	2	100		Investment establishment
30	Shandong Fuyuan Supply Chain Management Co., Ltd	Jinan	Jinan	Investment Management	3,000.00	2	60	40	Investment establishment
31	Shandong Lushang Huashi Education Technology Development Co., Ltd	Jinan	Jinan	Education	1,000.00	2	51		Investment establishment
32	Shandong Hongtai Fuyuan Investment Co., Ltd	Jinan	Jinan	Business services	1,000.00	3	70		Investment establishment
33	Shandong Hongtai Fuyuan Capital Management Co., Ltd	Jinan	Jinan	Investment management	5,000.00	2	100		Investment establishment
34	Shandong Lushang Logistics Technology Co., Ltd.	Jinan	Jinan	Logistics and warehousing	2100	2	100		Investment establishment
35	Shandong Shangyuan Property Management Service Co., Ltd.	Jinan	Jinan	business	300	3		100	Investment establishment
36	Shandong Shangding Culture Communication Co., Ltd.	Jinan	Jinan	business	600	3		100	Investment establishment
37	Shandong Animal Husbandry and Industrial and Commerce General Corp.	Jinan	Jinan	Husbandry industry	3,175.00	2	100		Transfer
38	Lushang Equity Investment Fund Management Co., Ltd.	Chongqing	Chongqing	Equity Investment	1,000.00	3		75	Transfer
39	Jinan Mingerui Xiangkang Trading Co., Ltd.	Jinan	Jinan	Husbandry industry	100	3		100	Transfer
40	Shandong Mingda veterinary medicine Feed Co., Ltd.	Jinan	Jinan	Husbandry industry	600	3		100	Transfer
41	Weifang Lumu Mingda Trading Co., Ltd.	Jinan	Jinan	Husbandry industry	100	4		100	Transfer
42	Yantai Lumu Mingda Trading Co., Ltd.	Jinan	Jinan	Husbandry industry	100	4		100	Transfer
43	Shandong Luweisu Feed Co., Ltd	Jinan	Jinan	Husbandry industry	300	4		100	Transfer
44	Shandong Lushang Industrial Development Co., Ltd	Jinan	Jinan	Equity Investment	3,000.00	4		100	Investment establishment
45	Shandong Lushang Rural Revitalization industry fund partnership (limited partnership)	Qingdao	Qingdao	Business services	250,000.00	2	20	19.6	Investment establishment
46	Lushang Products Group Co., Ltd.	Jinan	Jinan	business	10,000.00	2	100		Investment establishment
47	Tai'an Inzone Real Estate Development Co., Ltd.	Taian	Taian	Real estate development	2,000.00	2	97	3	Acquire corporate merger



	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
									under the same control
48	Dongying Inzone Real Estate Development Co., Ltd.	Dongying	Dongying	Real estate development	1,000.00	2	100		Acquire corporate merger under the same control
49	Jining Lushang Property Co., Ltd.	Jining	Jining	Real estate development	2,000.00	2	100		Investment establishment
50	Shandong Inzone Green Home Furnishing Co., Ltd.	Jinan	Jinan	business	1,000.00	2	46.5		Acquire corporate merger under the same control
51	Zibo Inzone Green Home Furnishing Co., Ltd.	Zibo	Zibo	business	500	3		100	Investment establishment
52	Weihai happy home Co., Ltd.	Weihai	Weihai	business	100	3		100	Investment establishment
53	Linyi Inzone Green Home Furnishing Co., Ltd.	Linyi	Linyi	business	500	3		100	Investment establishment
54	Weihai Inzone Green Home Furnishing Co., Ltd.	Weihai	Weihai	business	500	3		100	Investment establishment
55	Binzhou Inzone Green Home Furnishing Co., Ltd.	Binzhou	Binzhou	business	500	3		100	Investment establishment
56	Shandong Inzone Leju daily life supplies Co., Ltd.	Jinan	Jinan	Retail industry	100	3		100	Acquire corporate merger under the same control
57	Heze Inzone Green Home Furnishing Co., Ltd.	Heze	Heze	Retail industry	500	3		100	Acquire corporate merger under the same control
58	Dongying Chuangzhan Real Estate Co., Ltd.	Dongying	Dongying	Retail industry	2,000.00	3		100	Acquire corporate merger under the same control
59	Shandong Inzone Green Home Furnishing Chain Management Co., Ltd.	Jinan	Jinan	Management and consultation	300	3		100	Acquire corporate merger under the same control
60	Laiwu Inzone Home Furnishing Co., Ltd.	Laiwu	Laiwu	business	500	3		100	Acquire corporate merger under the same control
61	Shandong Inzone Plaza Co., Ltd.	Jinan	Jinan	business	40,000.00	2	41.35		Investment establishment
62	Linqing Inzone Shopping	Linqing	Linqing	business	500	3		100	Investment

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
	Plaza Co., Ltd.								establishment
63	Jinan Changqing Inzone Shopping Plaza Co., Ltd.	Jinan	Jinan	business	500	3		100	Investment establishment
64	Gaotang Inzone Shopping Plaza Co., Ltd.	Liaocheng	Liaocheng	business	500	3		100	Investment establishment
65	Shandong Inzone Logistics Co., Ltd.	Jinan	Jinan	Logistics and warehousing	3,000.00	3		100	Investment establishment
66	Qufu Inzone Distribution Co., Ltd.	Jining	Jining	Logistics and warehousing	3,000.00	3		100	Investment establishment
67	Shandong Inzone Advertising Co., Ltd.	Jinan	Jinan	Advertising	100	3		90.4	Investment establishment
68	Shandong Inzone Property Management Co., Ltd.	Jinan	Jinan	Property Management	300	3		100	Investment establishment
69	Shandong Inzone Jiuxin Real Estate Development Co., Ltd.	Jinan	Jinan	Real estate industry	3,333.00	3		50	Investment establishment
70	Shandong Unimart Commercial Co., Ltd.	Jinan	Jinan	business	6,000.00	3		45	Investment establishment
71	Shandong Inzone Distribution Co., Ltd.	Jinan	Jinan	Logistics and warehousing	2,500.00	3		100	Investment establishment
72	Shandong Inzone Electric Appliance Co., Ltd.	Jinan	Jinan	business	2,000.00	4		100	Investment establishment
73	Shandong Inzone Information Technology Co., Ltd.	Jinan	Jinan	Software and information technology services	4,000.00	3		100	Investment establishment
74	Jinan Inzone Shopping Plaza Co., Ltd.	Jinan	Jinan	business	2,500.00	3		100	Investment establishment
75	Jinan Wanji Real Estate Co., Ltd.	Jinan	Jinan	Real estate industry	1,000.00	3		100	Investment establishment
76	Jinan Inzone North Park Shopping Plaza Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100	Investment establishment
77	Pingyi Inzone Shopping Plaza Co., Ltd.	Pingyi	Pingyi	business	500	3		100	Investment establishment
78	Anqiu Inzone Shopping Mall Co., Ltd.	Anqiu	Anqiu	business	1,000.00	3		100	Investment establishment
79	Yantai Inzone Shopping Mall Co., Ltd.	Yantai	Yantai	business	1,000.00	3		100	Investment establishment
80	Liyang Inzone Shopping Mall Co., Ltd.	Fuyang	Fuyang	business	1,000.00	3		100	Investment establishment
81	Luoyang Inzone	Luoyang	Luoyang	business	1,000.00	3		100	Investment

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
	Shopping Mall Co., Ltd.								establishment
82	Anyang Inzone Shopping Mall Co., Ltd.	Anyang	Anyang	business	1,000.00	3		100	Investment establishment
83	Jinan Inzone Shopping Mall Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100	Investment establishment
84	Hebi Inzone Shopping Mall Co., Ltd.	Hebi	Hebi	business	1,000.00	3		100	Investment establishment
85	Jining Inzone Shopping Plaza Co., Ltd.	Jining	Jining	business	1,500.00	3		100	Investment establishment
86	Jining Inzone Shopping Mall Co., Ltd.	Jining	Jining	business	1,000.00	3		100	Investment establishment
87	Laiwu Inzone Real Estate Co., Ltd.	Laiwu	Laiwu	Real estate industry	1,000.00	3		100	Investment establishment
88	Linyi Juyi Property Co., Ltd.	Linyi	Linyi	Real estate industry	5,000.00	3		100	Investment establishment
89	Rizhao Inzone Shopping Mall Co., Ltd.	Rizhao	Rizhao	business	1,000.00	3		100	Investment establishment
90	Tengzhou Inzone Shopping Shopping Mall Co., Ltd.	Tengzhou	Tengzhou	business	1,000.00	3		100	Investment establishment
91	Zaozhuang Inzone Shopping Mall Co., Ltd.	Zaozhuang	Zaozhuang	business	1,000.00	3		100	Investment establishment
92	Xingtai Inzone Shopping Mall Co., Ltd.	Xingtai	Xingtai	business	1000	3		100	Investment establishment
93	Weifang Inzone Distribution Co., Ltd.	Weifang	Weifang	Other warehousing	3,000.00	4		100	Investment establishment
94	Inzone Cloud Life E-commerce Co., Ltd.	Jinan	Jinan	consultation service	10,000.00	3		100	Investment establishment
95	Shandong Inzone catering management Co. Ltd	Jinan	Jinan	Accommodation and Catering Industry	1,000.00	3		40	Investment establishment
96	Shandong Inzone Intelligent science Co. Ltd	Jinan	Jinan	business	5,000.00	3		51	Investment establishment
97	Shandong Inzone Huixian Supermarket Co., Ltd	Jinan	Jinan	Wholesale industry	10,000.00	3		100	Investment establishment
98	National Engineering Research Center for Agricultural Products Logistics	Jinan	Jinan	Professional technical service industry	5,000.00	2	100		Investment establishment
99	Kindergarten of Shandong Commercial Group Co., Ltd.	Jinan	Jinan	Early childhood education	30	2	100		Investment establishment
100	Shandong Inzone-Yingcai	Jinan	Jinan	Education and	400	2	77		Investment

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
	Kindergarten			training					establishment
101	Beijing Inzone Oriental Education Consultant Co., Ltd.	Beijing	Beijing	Education and training	60	3		60	Investment establishment
102	Qingdao City District, Inzone • Yingcai Four Seasons Garden Kindergarten	Qingdao	Qingdao	Early childhood education	51	3		100	Investment establishment
103	Inzone Yingcai yilongwan kindergarten, Lanshan District, Linyi City	Linyi	Linyi	Early childhood education	3	3		100	Investment establishment
104	Linyi Lanshan District Inzone elite Phoenix kindergarten	Linyi	Linyi	Early childhood education	3	3		100	Investment establishment
105	Inzone Yingcai kindergarten Lingxiu branch, Kuiwen District, Weifang City	Weifang	Weifang	Early childhood education	3	3		100	Investment establishment
106	Lingshijun kindergarten, Zhoucun, Yingcai Kindergarten (Group), Inzone, Shandong	Zhoucun	Zhoucun	Early childhood education	3	3		100	Investment establishment
107	Shandong Lushang Institute	Jinan	Jinan	Education and training	1,000.00	2	100		Investment establishment
108	Shandong sina tide Media Co., Ltd	Jinan	Jinan	Cultural and artistic exchange	400	5		100	Transfer
109	Shandong Academy of Pharmaceutical Sciences	Jinan	Jinan	Pharmaceutical industry	22,005.00	2	Institution		Transfer
110	Shandong Business Daily	Jinan	Jinan	Publishing industry	3,141.00	3	24.05	54.25	Transfer
111	Shandong culture and Tourism Media Group Co., Ltd	Jinan	Jinan	Culture Media	5,000.00	4		100	Transfer
112	Jinan Itte Network Information Co., Ltd.	Lixia District	Lixia District	Internet service	100	4		90	Transfer
113	Shandong Commercial Group Corporation Staff Education and Training Center	Weihai	Weihai	Food Industry	91	2	Institution		Transfer
114	Qilu Medical University	Zibo	Zibo	Education industry	9,929.74	2	social organization		Investment establishment
115	Shandong Institute of Commerce and Technology	Jinan	Jinan	Education industry	18,969.70	2	Institution		Transfer
116	Qingdao Vocational and Technical College of Hotel Management	Qingdao	Qingdao	Education industry	13,144.00	2	Institution		Transfer
117	Shandong City Service Technician College	Yantai	Yantai	Hotel training	29,048.00	2	Institution		Transfer
118	Shandong Pharmaceutical Industry Designing Institute	Jinan	Jinan	Pharmaceutical industry	868	2	Institution		Transfer
119	Shandong Academy of Biomedical Sciences	Jinan	Jinan	Medical industry	600	2	100		Transfer

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
120	Food and drug magazine	Jinan	Jinan	Press and publishing	7	3		100	Investment establishment
121	Lushang education Holding Co., Ltd	Jinan	Jinan	Education and training	5,000.00	2	100		Investment establishment
122	Shandong Vocational Education Technology Co., Ltd	Jinan	Jinan	Education and training	1,000.00	3		97.5	Investment establishment
123	Shandong Qilu Medical Education Technology Co., Ltd	Zibo	Zibo	Education and training	2,000.00	3		82.2	Investment establishment
124	Shandong Golden vision (Qingdao) Education Technology Co., Ltd	Qingdao	Qingdao	Education and training	1,000.00	3		97.5	Investment establishment
125	Shandong Inzone babyjiatuoyu Technology Co., Ltd	Jinan	Jinan	Education and training	300	4		63	Investment establishment
126	Shandong Inzone Education Management Consulting Co., Ltd	Jinan	Jinan	Education and training	1,000.00	3		90	Investment establishment
127	Shandong Inzone Automobile Co., Ltd.	Jinan	Jinan	business	4,000.00	2	33.75		Investment establishment
128	Shandong Inzone Tianrui Automobile Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100	Investment establishment
129	Shandong Inzone Tiantong Automobile Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100	Investment establishment
130	Shandong Inzone Tianzun Automobile Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100	Investment establishment
131	Lushang International Trade Co., Ltd	Jinan	Jinan	business	1,000.00	3		100	Investment establishment
132	Shandong Inzone Tianyi Automobile Co., Ltd.	Jinan	Jinan	business	2,000.00	3		100	Investment establishment
133	Shandong Inzone Motor Trade Co., Ltd.	Jinan	Jinan	business	1,700.00	3		100	Investment establishment
134	Shandong Inzone Tiancheng Automobile Co., Ltd.	Jinan	Jinan	business	2,000.00	3		100	Investment establishment
135	Lushang Financing Guarantee Co., Ltd.	Jinan	Jinan	business	10,000.00	3		100	Investment establishment
136	Shandong Inzone Tianqi Real Estate Co., Ltd.	Jinan	Jinan	business	5,000.00	3		100	Investment establishment
137	Lushang (Tianjin) International Trade Co., Ltd.	Tianjin	Tianjin	business	2,000.00	3		51	Investment establishment
138	Shandong Yinxin Auction Co., Ltd.	Jinan	Jinan	business	300	3		55	Investment establishment
139	Lushang (Germany) Co., Ltd	Hamburg	Hamburg	business	2,006.28	3		100	Investment establishment



	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
									t
140	Lushang supply chain (Qingdao) Co., Ltd	Qingdao	Qingdao	business	5,000.00	3		100	Investment establishment t
141	Shandong Lushang Automobile Technology Co., Ltd	Jinan	Jinan	business	1,000.00	3		100	Investment establishment t
142	Shandong Province Yuemei Travel Automobile Company	Jinan	Jinan	business	2,495.70	2	100		Investment establishment t
143	Shandong Yongxing Group Co., Ltd	Jinan	Jinan	business	13,584.91	2	67		Investment establishment t
144	Shandong Yongxing Property Management Co., Ltd.	Jinan	Jinan	Service industry	300	3		100	Investment establishment t
145	Taian Runyu E-Commerce Management Co., Ltd	Taian	Taian	Mining equipment sales	100	3		100	Investment establishment t
146	Shandong Runtai Business Management Co., Ltd	Jinan	Jinan	Information consultation, house rental	725.41	3		100	Investment establishment t
147	Shandong Chaoneng Freda Biotechnology Co., Ltd.	Jinan	Jinan	Biological Technology	5,000.00	3	10	90	Investment establishment t
148	Shandong Guoxin Cultural Tourism Development Group Co., Ltd	Jinan	Jinan	Cultural tourism	822,693.38	2	44		Investment establishment t
149	Shandong wenlv Hotel Management Group Co., Ltd	Jinan	Jinan	Accommodation and Catering Industry	12,000.00	3		100	Investment establishment t
150	Shandong Inzone Jiayi Hotel Co., Ltd.	Jinan	Jinan	Accommodation and Catering Industry	4,960.00	4		100	Investment establishment t
151	Ji'nan silver hotel supplies Co., Ltd.	Jinan	Jinan	Accommodation	100	5		100	Investment establishment t
152	Jining Inzone Jiayue Restaurant Co., Ltd	Jining	Jining	Accommodation and Catering Industry	1,960.00	4		100	Investment establishment t
153	Laiwu Inzone Jiayue Restaurant Co., Ltd	Jinan	Jinan	Accommodation and Catering Industry	60	4		100	Investment establishment t
154	Jinan Inzone Jiayue Restaurant Co., Ltd	Jinan	Jinan	Accommodation and Catering Industry	1,000.00	4		100	Investment establishment t
155	Heze Inzone Yiting Hotel Co., Ltd	Heze	Heze	Accommodation and Catering Industry	500	4		100	Investment establishment t
156	Shandong Zibo Inzone Lishe Hotel Management Co., Ltd	Zibo	Zibo	Accommodation and Catering Industry	1,200.00	4		60	Investment establishment t
157	Beijing Inzone Hotel Management Co., Ltd	Beijing	Beijing	Accommodation and Catering Industry	400	4		40	Investment establishment t
158	Shandong tianmeng Tourism Development Co., Ltd	Linyi	Linyi	Tourism development	11,800.00	4		59	Investment establishment t



	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
159	Shandong Tourism Co., Ltd	Jinan	Jinan	Business services	450	4		100	Investment establishment
160	Shandong Inzone Travel Automobile Service Co., Ltd	Jinan	Jinan	Road transport	420	4		70	Investment establishment
161	Shandong Inzone Investment Co., Ltd	Jinan	Jinan	Business services	1,000.00	4		100	Investment establishment
162	Lushang Rural Development Group Co., Ltd	Jinan	Jinan	Business services	10,000.00	3		100	Investment establishment
163	Lushang Rural Development Group Co., Ltd	Jinan	Jinan	Tourism	153	4		51	Investment establishment
164	Shandong Rural Revitalization Qilu Model Research Institute Co., Ltd	Jinan	Jinan	Business	500	4		100	Investment establishment
165	Lushang jiunvfeng (Tai'an) Rural Revitalization Co., Ltd	Taian	Taian	Tourism	150	4		30	Investment establishment
166	Lushang cultural tourism development (Chongqing) Co., Ltd	Chongqing	Chongqing	Public facilities management	10,000.00	4		100	Investment establishment
167	Lushang (Jinan) Cultural Tourism Development Co., Ltd	Jinan	Jinan	Public facilities management	5,000.00	5		100	Investment establishment
168	Taishanyou International Ecotourism Resort (Tai'an) Co., Ltd	Taian	Taian	Business services	750	5		100	Investment establishment
169	Lushang Guokun (Shandong) Land Development Co., Ltd	Jinan	Jinan	Real estate	960	4		48	Investment establishment
170	Shandong Lushang Dinghao Holding Co., Ltd	Jinan	Jinan	Business services	500	4		50	Investment establishment
171	Lushang (Shandong) Education Technology Co., Ltd	Taian	Taian	Business services	500	4		41	Investment establishment
172	Lu Shang chenjiaoyu Xintai Rural Development Co., Ltd	Taian	Taian	Business services	2,000.00	4		48	Investment establishment
173	Shandong culture and tourism scenic spot Investment Group Co., Ltd	Jinan	Jinan	Investment and development of scenic spots	10,000.00	3		100	Investment establishment
174	Shandong Xintai red whistle Tourism Development Co., Ltd	Taian	Taian	Investment and development of scenic spots	5,000.00	4		57	Investment establishment
175	Shandong Inzone Education Management Co., Ltd	Jinan	Jinan	Education	500	3		100	Investment establishment
176	Shandong Lushang Huashi Education Technology Development Co., Ltd	Yantai	Yantai	Educational software	500	3		100	Investment establishment
177	Shandong tourism Engineering Design	Jinan	Jinan	Professional technical	30	3		100	recombination

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
	Institute			service industry					
178	Shandong Luxin Cultural Media Investment Group Co., Ltd	Jinan	Jinan	Business services	62,000.00	3		100	recombination
179	Shandong Luxin Inzone Culture Development Co., Ltd	Jinan	Jinan	Business services	480	4		48	recombination
180	Shandong Luxin Movie City Co., Ltd	Jinan	Jinan	Cultural and artistic industry	3,680.00	4		92	recombination
181	Shandong Luxin Inzone cinema Co., Ltd	Jinan	Jinan	Cultural and artistic industry	2,500.00	4		50	recombination
182	Dongying Xinhua Luxin Film City Co., Ltd	Dongying	Dongying	Cultural and artistic industry	500	5		51	recombination
183	Shandong Luxin cinema line Co., Ltd	Jinan	Jinan	Radio, television, film and sound production	500	4		100	recombination
184	Shandong Luxin Advertising Co., Ltd	Jinan	Jinan	Business services	5,000.00	4		100	recombination
185	Shandong Luxin Cultural Industry Venture Capital Co., Ltd	Jinan	Jinan	Business services	3,000.00	4		60	recombination
186	Shandong Taishan culture and art exchange Co., Ltd	Jinan	Jinan	Entertainment	4,250.00	4		39	recombination
187	Shandong Taiwan Ronghui Communication Co., Ltd	Jinan	Jinan	Wholesale industry	1,000.00	5		100	recombination
188	Qingdao International Golf Club Co., Ltd	Qingdao	Qingdao	Catering	6,944.81	3		100	recombination
189	Shandong Golden Wufengshan Tourism Development Co., Ltd	Jinan	Jinan	Public facilities management	16,900.00	3		100	recombination
190	Shandong Golden Guyun Lake International Golf Club Co., Ltd	Jinan	Jinan	Sports	1,000.00	4		100	recombination
191	Shandong Golden Automobile Service Co., Ltd	Jinan	Jinan	Road transport	100	3		100	recombination
192	Ji'nan gold Yibai automobile maintenance Co., Ltd.	Jinan	Jinan	Motor vehicle, electronic products and daily products repair industry	120	4		100	recombination
193	Inzone Group Co., Ltd.	Jinan	Jinan	Retail industry	52,006.66	2	25.06	9.7	Investment establishment
194	Tai'an Inzone Shopping Mall Co., Ltd.	Taian	Taian	Retail industry	1,432.90	3		100	Investment establishment
195	Dongying Inzone Shopping Mall Co., Ltd.	Dongying	Dongying	Retail industry	6,000.00	3		100	Corporate merger under the same control
196	Linyi Inzone Shopping Mall Co., Ltd.	Linyi	Linyi	Retail industry	22,124.50	3		100	Investment establishment
197	Qingzhou Inzone Shopping Mall Co., Ltd.	Qingzhou	Qingzhou	Retail industry	1,800.00	3		100	Investment establishment

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
									t
198	Xintai Inzone Shopping Mall Co., Ltd.	Xintai	Xintai	Retail industry	500	4		100	Investment establishment t
199	Binzhou Inzone Shopping Mall Co., Ltd.	Binzhou	Binzhou	Retail industry	13,460.00	3		100	Corporate merger under the same control
200	Qingdao Qianhao Real Estate Development Co., Ltd.	Qingdao	Qingdao	Real estate industry	1,000.00	3		95	Business mergers not under common control
201	Inzone Group Dezhou City Mall Co., Ltd.	Dezhou	Dezhou	Retail industry	3,000.00	3		100	Business mergers not under common control
202	Shandong Inzone Shopping Center Co., Ltd.	Jinan	Jinan	Retail industry	70,030.54	3		100	Investment establishment t
203	Shandong Inzone Real Estate Co., Ltd.	Jinan	Jinan	Real estate industry	67,046.70	4		100	Investment establishment t
204	Weihai Hongtu Trade Co., Ltd.	Weihai	Weihai	Retail industry	8,000.00	3		100	Business mergers not under common control
205	Shijiazhuang Oriental City Plaza Co., Ltd.	Shijiazhuang	Shijiazhuang	Retail industry	14,500.00	3		92.73	Business mergers not under common control
206	Zibo Inzone Shopping Mall Co., Ltd.	Zibo	Zibo	Retail industry	5,000.00	3		100	Corporate merger under the same control
207	Qingdao Inzone Investment Development Co., Ltd.	Qingdao	Qingdao	Real estate industry	20,000.00	3		100	Investment establishment t
208	Baoding Inzone Shopping Mall Co., Ltd.	Baoding	Baoding	Retail industry	1,000.00	3		100	Investment establishment t
209	Zhangjiakou Inzone Shopping Shopping Mall Co., Ltd.	Zhangjiakou	Zhangjiakou	Retail industry	1,000.00	3		100	Investment establishment t
210	Yinlong Business Management Consulting (Shanghai) Co., Ltd.	Shanghai	Shanghai	service industry	500	4		70	Investment establishment t
211	Inzone group Linqu Huaxing shopping mall Co., Ltd	Shandong	Shandong	Retail industry	101	3		70	Business mergers not under common control
212	Inzone Group Jinan Changqing Shopping Plaza Co., Ltd.	Jinan	Jinan	Retail industry	500	3		100	Investment establishment t

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
213	Shandong Constellation Commercial Management Co., Ltd.	Jinan	Jinan	Service, retail industry	1,500.00	4		100	Investment establishment
214	Jinan Inzone Wanhong Square Co., Ltd.	Jinan	Jinan	Retail industry	500	3		100	Investment establishment
215	Lushang Health Industry Development Co., Ltd.	Zibo	Zibo	Real estate development	100,915.22	2	52.01	1.71	Investment establishment
216	Shandong Lushang Real Estate Co., Ltd.	Jinan	Jinan	Real estate development	5,000.00	3		100	Acquire corporate merger under the same control
217	Shandong Inzone Real Estate Co., Ltd.	Jinan	Jinan	Real estate development	7,628.00	3		100	Acquire corporate merger under the same control
218	Shandong Commercial Real Estate Development Co., Ltd.	Jinan	Jinan	Real estate development	3,640.00	3		100	Acquire corporate merger under the same control
219	Lushang Freda Health Investment Co., Ltd.	Jinan	Jinan	Investment Management	5,000.00	3		100	Investment establishment
220	Dongyue holding Co., Ltd.	Jinan	Jinan	Investment, Real estate development	10,000.00	3	33	67	Investment establishment
221	Beijing Inzone Hezhi Real Estate Development Co., Ltd.	Beijing	Beijing	Real estate development	2,000.00	3		100	Acquire corporate merger under the same control
222	Qingdao Lushang Digital Technology Development Co., Ltd.	Qingdao	Qingdao	Real estate development	5,743.00	3		74	Investment establishment
223	Shandong Jiexing Enterprise Management Co., Ltd.	Jinan	Jinan	Enterprise management consulting	3,600.00	3		80	Investment establishment
224	Yantai Jiexing Enterprise Management Co., Ltd.	Yantai	Yantai	Enterprise management consulting	28,000.00	3		95.14	Investment establishment
225	Shandong Lushang Property Services Co., Ltd.	Jinan	Jinan	Property Management	10,000.00	4	100	100	Acquire corporate merger under the same control
226	Shandong business new town industry development Co., Ltd.	Jinan	Jinan	Planning and design management	5,000.00	4	100	100	Investment establishment
227	Shandong Lushang Innovation Development Co., Ltd.	Jinan	Jinan	Technical service and development	500	4	100	100	Investment establishment
228	Shandong Freda Pharmaceutical Group Co., Ltd.	Jinan	Jinan	Pharmaceutical industry	20,000.00	3	100	100	Investment establishment

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
229	Shandong Focuschem BIOTECH Co., Ltd.	Qufu	Qufu	Production and sales of cosmetics raw materials	5,000.00	3		60.11	Obtaining a business combination not under the same control
230	Linyi Lushang development gold Real Estate Co., Ltd	Linyi	Linyi	Real estate development	60,000.00	3		44.1	Investment establishment
231	Linyi Lushang Real Estate Co., Ltd.	Linyi	Linyi	Real estate development	2,000.00	4		100	Acquire corporate merger under the same control
232	Linyi Lushang Real Estate Co., Ltd.	Linyi	Linyi	Real estate development	2,000.00	4		100	Investment establishment
233	Lushang Real Estate Qingdao Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4	5	95	Investment establishment
234	Qingdao Lvfu Real Estate development Co., Ltd.	Qingdao	Qingdao	Real estate development and management	33,300.00	4		69.97	Investment establishment
235	Harbin Lushang Real Estate Co., Ltd.	Harbin	Harbin	Real estate development	5,000.00	4		90	Investment establishment
236	Heze Lushang Real Estate Co., Ltd.	Heze	Heze	Real estate development	5,000.00	4		100	Investment establishment
237	Jining Lushang Real Estate Co., Ltd.	Jining	Jining	Real estate development	5,000.00	4		100	Investment establishment
238	Liaoning Lushang Real Estate Co., Ltd.	Jinzhou	Jinzhou	Real estate development	5,000.00	4		80	Investment establishment
239	Linyi Lushangjin Real Estate Co., Ltd.	Linyi	Linyi	Real estate development	5,000.00	4		65	Investment establishment
240	Linyi Lushang Real Estate Co., Ltd.	Linyi	Linyi	Real estate development and management	1,000.00	4		40	Investment establishment
241	Shandong Lushang Architectural Design Co., Ltd.	Jinan	Jinan	architectural design	500	4		100	Investment establishment
242	Qingdao Lushang Lan'an Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	20,000.00	4		100	Investment establishment
243	Qingdao Lushang Blue Valley Health Industry Co., Ltd	Qingdao	Qingdao	Health management consulting	5,000.00	4		64	Investment establishment
244	Qingdao Lushang Blue Valley Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development and management	5,000.00	4		95	Investment establishment
245	Qingdao Lushang Chuangzhi Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development and	5,000.00	4		90	Investment establishment



	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
				management					
246	Qingdao Lushang Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	2,000.00	4		100	Acquire corporate merger under the same control
247	Qingdao Lushang Jiahe Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		80	Investment establishment
248	Qingdao Lushang Jinxiu Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development and management	5,000.00	4		70	Investment establishment
249	Lushang smart city (Qingdao) Development Co., Ltd	Qingdao	Qingdao	Property Management	50	4		100	Investment establishment
250	Qingdao Lushang Xifu Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		85	Investment establishment
251	Qingdao Lushang Land Development Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		75	Investment establishment
252	Shandong Lanang Garden Engineering Co., Ltd.	Jinan	Jinan	Landscaping pr	2,000.00	4		100	Acquire corporate merger under the same control
253	Shandong Lushang Jinlin Real Estate Development Co., Ltd.	Jinan	Jinan	Real estate development	20,000.00	4		100	Investment establishment
254	Shanghai Lushang Real Estate Co., Ltd	Shanghai	Shanghai	Real estate development and management	5,000.00	4		100	Obtaining a business combination not under the same control
255	Taian Lushang Real Estate Co., Ltd.	Taian	Taian	Real estate development	5,000.00	4		100	Investment establishment
256	Taian Lushang Real Estate Co., Ltd.	Taian	Taian	Real estate development	5,000.00	4		100	Investment establishment
257	Weifang Lushang Real Estate Co., Ltd.	Weifang	Weifang	Real estate development and management	2,000.00	4		100	Investment establishment
258	Yantai Lushang Real Estate Co., Ltd.	Yantai	Yantai	Real estate development	5,000.00	4		100	Investment establishment
259	Chongqing Lushang Real Estate Co., Ltd.	Chongqing	Chongqing	Real estate development	2,000.00	4		80	Acquire corporate merger under the same control
260	Zibo Lushang Real Estate Co., Ltd.	Zibo	Zibo	Real estate development and management	5,000.00	4		91	Investment establishment
261	Shandong Luxin Real	Jinan	Jinan	Real estate	30,000.00	4		76	Investment



	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
	Estate Co., Ltd			development					establishment
262	Yantai Lushang Jiahui Real Estate Co., Ltd	Yantai	Yantai	Real estate development	HK\$19380	4		80	Investment establishment
263	Qingdao Xingzhou Shiyuan Property Co., Ltd.	Qingdao	Qingdao	Real estate development	2,000.00	4		75	Acquire corporate merger under the same control
264	Jinan Furuida nursing home Co., Ltd.	Jinan	Jinan	Medical service, elderly nursing service	200	4		100	Investment establishment
265	Linyi Freda Health Investment construction Co., Ltd.	Linyi	Linyi	Investment in real estate and pension services, tourism services	4,100.00	4		39.02	Investment establishment
266	Qingdao Lushang Runzhi Investment Development Co., Ltd	Qingdao	Qingdao	Investment, real estate development	120,000.00	4		58	Investment establishment
267	Jinan lumao Real Estate Co., Ltd	Jinan	Jinan	Investment, real estate development	8,000.00	4		45	Investment establishment
268	Yantai lumao Real Estate Co., Ltd	Yantai	Yantai	Investment, real estate development	\$75 million	4		52	Investment establishment
269	Shandong Lushang Tang'an Property Co., Ltd	Jinan	Jinan	Property Management	300	5		41	Investment establishment
270	Shandong Freda Biological Engineering Co., Ltd.	Jinan	Jinan	Pharmaceutical industry	2,824.60	3		100	Investment establishment
271	Shandong Mingren Freda Pharmaceutical Co., Ltd.	Jinan	Jinan	Pharmaceutical industry	7,000.00	5		60.71	Investment establishment
272	Jinan Kangzhuang Avenue Financing& Trading Co., Ltd.	Jinan	Jinan	business	10	4		100	Investment establishment
273	Shandong Kangzhuang Avenue information science Co., Ltd.	Jining	Jining	Information technology development	300	4		100	Investment establishment
274	Shandong Dakang Financing& Trading Co., Ltd.	Jining	Jining	Prepackaged food, wholesale and retail	300	4		100	Investment establishment
275	Shandong Laikang Financing& Trading Co., Ltd.	Jining	Jining	Food, health food, etc., wholesale and retail	300	4		100	Investment establishment
276	Shandong Ningkang Financing& Trading Co., Ltd.	Jinan	Jinan	Food, health food, etc., wholesale and retail	300	4		100	Investment establishment
277	Shandong Freda Health Technology Co., Ltd.	Linyi	Linyi	consultation service	300	4		100	Investment establishment
278	Shandong Freda Biotechnology Co., Ltd.	Linyi	Linyi	Biotechnology	7,710.00	4	7.78	57.07	Investment establishment

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
279	Shandong Yi Lian Cosmetics Co., Ltd.	Jinan	Jinan	cosmetic	400	5		100	Investment establishment
280	Focuschem Biopharm Co., Ltd.	Qufu	Qufu	Pharmaceutical production and sales	5,000.00	4		100	Obtaining a business combination not under the same control
281	Qufu Focuschem Trading Co., Ltd.	Qufu	Qufu	Pharmaceutical sales	30	4		100	Obtaining a business combination not under the same control
282	Shandong Samehealth PHARMA Co., Ltd.	Qufu	Qufu	Pharmaceutical sales	300	4		100	Obtaining a business combination not under the same control
283	Shandong Lushang Intelligent Technology Co., Ltd.	Jinan	Jinan	business	1,539.00	2	100		Investment establishment
284	Shandong silk road Lingyan Cultural Tourism Co., Ltd.	Jinan	Jinan	Business services	10,000.00	3		57	Investment establishment

## 2. Important non-wholly-owned subsidiaries

	Name	Minority shareholders' equity	Gain and loss attributable to minority shareholders for the current period	Accumulated minority shareholders' equity at the end of the period
1	Inzone Group Co., Ltd.	69.86%	-230,615,076.78	2,383,050,852.51
2	Lushang Health Industry Development Co., Ltd.	46.83%	299,091,304.14	1,910,703,794.82

## 3. Major financial information of major non-wholly-owned subsidiaries (Unit: RMB)

Subsidiary	31-Dec-20					
	Current Assets	Non-current Assets	Total	Current Liability	Non-current Liability	Total
Inzone Group Co., Ltd.	2,729,354,647.66	7,591,799,790.86	10,321,154,438.52	7,053,958,014.66	481,214,814.91	7,535,172,829.57
Lushang Health Industry Development Co., Ltd.	59,116,788,820.88	2,381,795,921.89	61,498,584,742.77	50,485,791,052.10	4,495,382,609.34	54,981,173,661.44
Subsidiary	31-Dec-19					
	Current Assets	Non-current Assets	Total	Current Liability	Non-current Liability	Total
Inzone Group Co., Ltd.	2,942,377,317.60	8,019,100,243.34	10,961,477,560.94	7,209,058,678.18	518,907,869.01	18,170,536,239.12
Lushang Health Industry Development Co., Ltd.	54,393,253,106.34	1,626,191,794.94	56,019,444,901.28	47,480,122,525.04	3,843,674,218.78	51,323,796,743.82

(Continued)

Subsidiary	2020			
	Operating Revenue	Net profit	Total comprehensive income	Operating activities cash flow
Inzone Group Co., Ltd.	5,411,635,924.62	-371,155,834.53	-371,155,834.53	692,715,017.66
Lushang Health Industry Development Co., Ltd.	13,615,482,089.40	638,889,392.71	638,889,392.71	4,448,018,883.54
Subsidiary	2019			
	Operating Revenue	Net profit	Total comprehensive income	Operating activities cash flow
Inzone Group Co., Ltd.	12,262,096,164.28	37,566,356.98	37,566,356.98	693,926,322.27
Lushang Health Industry Development Co., Ltd.	10,289,206,911.17	394,114,222.47	394,114,222.47	-3,307,182,480.93

## 9.2 Equity in joint ventures or associates

### 1. Important joint venture or associates

Name	Main place of business	Registration Place	Nature of Business	Shareholding (%)		Accounting treatment method
				Direct	Indirect	
Linyi Jinqin Real Estate Development Co., Ltd	Linyi, Shandong	Linyi, Shandong	Real estate development		45.00	Equity Method
Shandong Bausch & Fung Freda Pharmaceutical Co., Ltd.	Jinan, Shandong	Jinan, Shandong	Medical industry		30.00	Equity Method

### 2. Major financial information of major associated companies (Unit: RMB)

I	Linyi Jinqin Real Estate Development Co., Ltd	
	31-Dec-20	31-Dec-19
Current Assets	3,220,287,733.10	5,191,997,123.99
Non-current Assets	1,233,381.22	640,177.39
<b>Total</b>	<b>3,221,521,114.32</b>	<b>5,192,637,301.38</b>
Current Liability	2,602,846,179.76	4,663,419,183.08
Non-current Liability		250,000,000.00
<b>Total</b>	<b>2,602,846,179.76</b>	<b>4,913,419,183.08</b>
Operating Income	1,748,239,591.24	1,023,695,055.65
Net Profit	339,456,816.26	290,223,696.31
Total comprehensive income	339,456,816.26	290,223,696.31

(Continued)

II	Shandong Bausch & Fung Freda Pharmaceutical Co., Ltd.	
	31-Dec-20	31-Dec-19

II	Shandong Bausch & Fung Freda Pharmaceutical Co., Ltd.	
	31-Dec-20	31-Dec-19
Current Assets	575,747,657.30	475,619,338.66
Non-current Assets	113,640,997.75	115,069,155.36
<b>Total</b>	<b>689,388,655.05</b>	<b>590,688,494.02</b>
Current Liability	310,147,700.25	291,322,171.83
Non-current Liability		
<b>Total</b>	<b>310,147,700.25</b>	<b>291,322,171.83</b>
Operating Income	651,559,768.31	592,810,215.65
Net Profit	212,651,052.57	136,671,157.46
Total comprehensive income	212,651,052.57	136,671,157.46

## Note 10 Related parties and related party transactions

### 10.1 Recognition criteria of related party relations

According to the "Accounting Standards for Business Enterprises No. 36 - Related Party Disclosure", if one party controls, controls the other party jointly or exerts a significant influence on the other party, and the two parties or more than two parties are controlled, jointly controlled by one party, they will form related party relationships.

According to the "Measures for the Administration of Information Disclosure of Listed Companies" (China Securities Regulatory Commission Decree No. 40), related legal representative and associated natural persons in certain circumstances are also regarded as related parties.

### 10.2 Related party relations

#### 1. Parent and ultimate party

The ultimate controller of the Company is Shandong Provincial State-owned Assets Supervision and Administration Commission.

#### 2. General information of subsidiaries

Please refer to Note 7、9

#### 3. Joint venture and associates

None

#### 4. Related party transaction pricing principles

The pricing method of transactions with related parties is based on market pricing, and the settlement method is consistent with non-related parties.

#### 5. Related party transaction

None

#### Note 11 Commitments

None

#### Note 12 Contingent events

##### 12.1 Shandong Business Group Co., Ltd. : Major guarantees within and outside the group

Unit: RMB 10,000

Loan Company (full name)	Amount	Loan Date	Expiry Date
Inzone Group Co., Ltd.	5,000.00	2020-2-1	2021-1-20
Inzone Group Co., Ltd.	15,000.00	2020-3-8	2021-3-8
Inzone Group Co., Ltd.	15,000.00	2020-4-13	2021-3-20
Inzone Group Co., Ltd.	15,000.00	2020-10-10	2021-9-17
Inzone Group Co., Ltd.	16,000.00	2020-7-8	2021-7-5
Inzone Group Co., Ltd.	17,000.00	2020-7-21	2021-7-19
Inzone Group Co., Ltd.	6,500.00	2020-4-23	2021-4-23
Inzone Group Co., Ltd.	6,500.00	2020-7-14	2021-7-14
Inzone Group Co., Ltd.	22,420.00	2020-8-26	2021-8-26
Inzone Group Co., Ltd.	7,580.00	2020-8-31	2021-8-31
Inzone Group Co., Ltd.	10,000.00	2020-2-21	2021-2-21
Inzone Group Co., Ltd.	13,000.00	2020-11-27	2021-8-19
Inzone Group Co., Ltd.	20,000.00	2020-3-13	2021-3-12
Inzone Group Co., Ltd.	20,000.00	2020-4-2	2021-3-9
Inzone Group Co., Ltd.	5,000.00	2020-6-29	2021-6-29
Inzone Group Co., Ltd.	10,000.00	2020-10-23	2021-10-23
Inzone Group Co., Ltd.	9,900.00	2020-12-4	2021-12-4
Shandong Silver Plaza Co., Ltd.	4,000.00	2020-11-27	2021-11-26
Shandong Silver Plaza Co., Ltd.	7,200.00	2020-12-2	2021-12-1
Shandong Silver Plaza Co., Ltd.	19,300.00	2020-12-31	2021-12-28
Shandong Silver Plaza Co., Ltd.	5,000.00	2020-8-7	2021-8-6
Shandong Silver Plaza Co., Ltd.	10,000.00	2020-11-12	2021-11-8
Shandong Silver Plaza Co., Ltd.	10,000.00	2020-6-5	2021-6-5
Shandong Silver Plaza Co., Ltd.	10,000.00	2020-6-19	2021-6-19
Shandong Silver Plaza Co., Ltd.	6,834.00	2018-12-13	2021-12-12
Shandong Silver Plaza Co., Ltd.	3,417.00	2019-1-8	2022-1-8
Shandong Silver Plaza Co., Ltd.	2,257.00	2019-3-29	2021-3-29
Shandong Silver Plaza Co., Ltd.	10,000.00	2019-8-7	2022-8-7
Shandong Silver Plaza Co., Ltd.	16,197.00	2020-6-2	2023-6-2
Shandong Silver Plaza Co., Ltd.	10,000.00	2020-2-26	2021-2-25
Shandong Silver Plaza Co., Ltd.	30,000.00	2020-4-13	2021-4-12

Shandong Silver Plaza Co., Ltd.	5,000.00	2020-12-23	2021-12-23
Shandong Silver Plaza Co., Ltd.	6,000.00	2020-12-23	2021-12-23
Shandong Silver Plaza Co., Ltd.	6,000.00	2020-12-13	2021-12-13
Shandong Inzone Shopping Center Co., Ltd.	5,000.00	2020-12-29	2023-12-29
Shandong Freda Pharmaceutical Group Co., Ltd.	1,120.00	2018-4-28	2021-4-28
Shandong Freda Pharmaceutical Group Co., Ltd.	2,480.00	2018-11-19	2021-11-19
Shandong Freda Pharmaceutical Group Co., Ltd.	4,000.00	2020-2-18	2021-2-17
Shandong Freda Pharmaceutical Group Co., Ltd.	950	2020-3-31	2023-3-9
Shandong Freda Pharmaceutical Group Co., Ltd.	2,850.00	2020-4-20	2023-3-9
Shandong Freda Pharmaceutical Group Co., Ltd.	5,630.00	2020-5-29	2021-11-29
Shandong Freda Pharmaceutical Group Co., Ltd.	9,110.00	2020-6-2	2021-12-2
Shandong Freda Pharmaceutical Group Co., Ltd.	3,350.00	2020-6-9	2021-12-9
Shandong Freda Pharmaceutical Group Co., Ltd.	1,910.00	2020-6-12	2021-12-12
Shandong Freda Pharmaceutical Group Co., Ltd.	9,970.00	2020-7-10	2022-1-10
Shandong Freda Pharmaceutical Group Co., Ltd.	10,000.00	2020-6-30	2023-6-29
Shandong Freda Pharmaceutical Group Co., Ltd.	9,000.00	2020-10-13	2023-6-29
Shandong Freda Pharmaceutical Group Co., Ltd.	1,085.00	2020-10-13	2025-8-25
Shandong Freda Pharmaceutical Group Co., Ltd.	2,946.00	2020-11-13	2025-8-25
Shandong Freda Pharmaceutical Group Co., Ltd.	2,719.00	2020-11-13	2025-8-25
Shandong Freda Pharmaceutical Group Co., Ltd.	3,000.00	2020-12-28	2021-12-24
Etone Jinfu Payment Co., Ltd.	15,900.00	2018-5-4	2021-5-4
Etone Jinfu Payment Co., Ltd.	500	2018-6-8	2021-6-8
Etone Jinfu Payment Co., Ltd.	100	2019-1-29	2021-1-29
Etone Jinfu Payment Co., Ltd.	7,600.00	2019-1-29	2021-5-28
Etone Jinfu Payment Co., Ltd.	100	2019-2-22	2021-2-20
Etone Jinfu Payment Co., Ltd.	4,600.00	2019-2-22	2021-5-31
Etone Jinfu Payment Co., Ltd.	2,500.00	2020-7-23	2021-7-22
Etone Jinfu Payment Co., Ltd.	3,000.00	2020-1-21	2021-1-18
Shandong Etone Development Group Co., Ltd.	2,800.00	2020-3-4	2021-3-4
Shandong Etone Development Group Co., Ltd.	2,200.00	2020-8-3	2021-8-3
Shandong Etone Development Group Co., Ltd.	50,000.00	2019-3-28	2021-3-28
Shandong Etone Development Group Co., Ltd.	50,000.00	2019-4-1	2021-4-1
Shandong Etone Development Group Co., Ltd.	100,000.00	2019-9-17	2024-9-13
Shandong Yitong Commercial Factoring Co., Ltd.	5,150.00	2020-10-9	2021-8-18
Shandong Yitong Commercial Factoring Co., Ltd.	4,850.00	2020-12-31	2021-12-3
Etone Financial Leasing (Tianjin) Co., Ltd.	1,040.00	2020-8-11	2021-7-6
Shandong Inzone Automobile Co., Ltd.	5,444.00	2020-1-25	2021-1-25
Shandong Inzone Automobile Co., Ltd.	7,993.00	2020-2-28	2022-2-27
Shandong Inzone Motor Trade Co., Ltd.	2,500.00	2020-4-30	2021-4-30
Shandong Inzone Motor Trade Co., Ltd.	1,000.00	2020-5-6	2021-5-5
Shandong Inzone Automobile Co., Ltd.	2,000.00	2020-6-18	2021-6-18
Shandong Inzone Motor Trade Co., Ltd.	850	2020-7-21	2021-1-20
Shandong Inzone Tianzun Automobile Co., Ltd.	1,150.00	2020-7-21	2021-1-20
Shandong Inzone Tianyi Automobile Co., Ltd.	3,000.00	2020-7-30	2021-1-29
Shandong Inzone Tianzun Automobile Co., Ltd.	850	2020-8-10	2021-2-9
Shandong Inzone Motor Trade Co., Ltd.	150	2020-8-13	2021-2-10
Shandong Inzone Tianyi Automobile Co., Ltd.	2,000.00	2020-8-21	2021-2-20
Shandong Inzone Tianzun Automobile Co., Ltd.	5,000.00	2020-8-21	2021-2-21
Shandong Inzone Tianyi Automobile Co., Ltd.	1,000.00	2020-8-28	2021-2-26



Shandong Inzone Tianyi Automobile Co., Ltd.	1,000.00	2020-9-11	2021-3-10
Shandong Inzone Tianzun Automobile Co., Ltd.	3,000.00	2020-9-11	2021-7-29
Shandong Inzone Tianyi Automobile Co., Ltd.	1,000.00	2020-9-16	2021-3-16
Shandong Inzone Tianyi Automobile Co., Ltd.	1,000.00	2020-9-18	2021-3-18
Shandong Inzone Motor Trade Co., Ltd.	1,100.00	2020-9-25	2021-3-25
Shandong Inzone Tianzun Automobile Co., Ltd.	2,000.00	2020-9-25	2021-3-25
Lushang Inzone Automobile Co., Ltd.	6,000.00	2020-9-27	2021-3-27
Shandong Inzone Tianzun Automobile Co., Ltd.	1,000.00	2020-9-30	2021-3-30
Lushang Inzone Automobile Co., Ltd.	5,000.00	2020-10-15	2021-4-15
Lushang Inzone Automobile Co., Ltd.	4,000.00	2020-10-16	2021-4-15
Shandong Inzone Motor Trade Co., Ltd.	400	2020-10-28	2021-4-27
Shandong Inzone Tianyi Automobile Co., Ltd.	1,500.00	2020-10-22	2021-9-29
Shandong Inzone Tianyi Automobile Co., Ltd.	1,500.00	2020-10-23	2021-9-29
Shandong Inzone Tianzun Automobile Co., Ltd.	6,800.00	2020-11-20	2021-5-20
Shandong Inzone Tianzun Automobile Co., Ltd.	3,500.00	2020-11-26	2021-11-26
Qilu Medical University	18,224.00	2018-8-1	2028-4-21
Qilu Medical University	7,810.00	2018-12-28	2028-4-21
Qilu Medical University	13,625.00	2020-9-23	2023-9-23
Shandong Fuyuan Micro-credit Co., Ltd.	1,000.00	2020-6-12	2021-6-12
Shandong Fuyuan Micro-credit Co., Ltd.	2,500.00	2020-8-17	2021-8-16
Shandong Fuyuan Micro-credit Co., Ltd.	2,500.00	2020-8-25	2021-8-16
Shandong Fuyuan Micro-credit Co., Ltd.	2,000.00	2020-9-8	2021-9-8
Shandong Fuyuan Micro-credit Co., Ltd.	2,000.00	2020-10-29	2021-10-29
Shandong Inzone Tourism Group Co., Ltd	5,200.00	2020-12-23	2021-12-14
Shandong Inzone Tourism Group Co., Ltd	2,800.00	2020-3-16	2021-3-16
Shandong Inzone Tourism Group Co., Ltd	4,000.00	2020-6-12	2021-6-11
Shandong Inzone Tourism Group Co., Ltd	1,000.00	2020-2-19	2021-2-19
Shandong Inzone Tourism Group Co., Ltd	4,000.00	2020-4-17	2021-4-16
Shandong Inzone Tourism Group Co., Ltd	3,500.00	2020-9-25	2021-9-24
Shandong tianmeng Tourism Development Co., Ltd	12,000.00	2015-12-2	2022-6-8
Shandong tianmeng Tourism Development Co., Ltd	9,000.00	2016-3-29	2022-6-8
Shandong tianmeng Tourism Development Co., Ltd	26,466.00	2018-7-30	2023-7-15
Shandong tianmeng Tourism Development Co., Ltd	7,200.00	2016-6-16	2031-6-15
Shandong tianmeng Tourism Development Co., Ltd	12,000.00	2015-12-2	2022-6-8
Shandong tianmeng Tourism Development Co., Ltd	9,000.00	2016-3-30	2022-6-8
Shandong tianmeng Tourism Development Co., Ltd	6,694.00	2020-7-24	2023-7-23
Shandong tianmeng Tourism Development Co., Ltd	8,137.00	2020-9-25	2023-9-15
Shandong Rural Revitalization Qilu Model Research Institute Co., Ltd	5,000.00	2020-9-30	2023-9-29
Shandong culture and Tourism Media Group Co., Ltd	2,000.00	2020-7-22	2021-7-22
Jinan lumao Real Estate Co., Ltd	73,400.00	2018-4-28	2021-4-18
Qingdao Lushang Jinxiu Real Estate Co., Ltd.	38,000.00	2018-6-1	2021-4-18
Qingdao Lushang Lanan Real Estate Co., Ltd.	17,390.00	2019-8-1	2021-10-22
Qingdao Lushang Blue Valley Health Industry Co., Ltd	70,000.00	2017-4-13	2022-12-13
Linyi Lushang Real Estate Co., Ltd.	18,173.00	2019-12-16	2021-12-15
Linyi Lushangjin Real Estate Co., Ltd.	25,000.00	2019-11-18	2021-6-9
Linyi Lushangjin Real Estate Co., Ltd.	1,010.00	2018-9-25	2021-9-17
Linyi Lushang Real Estate Co., Ltd.	2,380.00	2018-10-30	2021-10-30
Yantai Lushang Real Estate Co., Ltd.	80,000.00	2020-2-1	2021-10-30
Zibo Lushang Real Estate Co., Ltd.	25,000.00	2019-12-17	2021-12-16

Harbin Lushang Real Estate Co., Ltd.	45,990.00	2020-1-13	2023-1-7
Qingdao Lushang Runzhi Investment Development Co., Ltd	57,445.00	2019-5-23	Due in installments
Qingdao Lushang Land Development Co., Ltd.	19,200.00	2020-4-3	2021-4-2
Lushang Real Estate Qingdao Co., Ltd.	118,000.00	2020-5-29	2023-5-27
Shandong Freda Pharmaceutical Group Co., Ltd.	29,970.00	2020-6-29	2023-6-23
Heze Lushang Real Estate Co., Ltd.	40,000.00	2020-6-3	Due in installments
Zibo Lushang Real Estate Co., Ltd.	13,200.00	2020-8-27	2021-8-26
Lushang Health Industry Development Co., Ltd.	90,000.00	2020-8-10	2021-8-9
Lushang Health Industry Development Co., Ltd.	40,000.00	2020-10-29	2023-10-28
Shandong Lushang Real Estate Co., Ltd.	10,000.00	2020-10-30	2021-10-29
Zibo Lushang Real Estate Co., Ltd.	25,000.00	2020-11-9	2021-11-8
Shandong Lushang Property Services Co., Ltd.	20,000.00	2020-12-10	2021-12-9
Shandong Lushang Innovation Development Co., Ltd	40,000.00	2020-12-25	2021-12-24
Jinan lumao Real Estate Co., Ltd	13,400.00	2020-12-25	2023-6-24

## 12.2 Shandong Commercial Group Finance Co., Ltd.

The company's external guarantees are as follows at December 31, 2020.

Subject	Type	Guarantee	Loan Bank	Maximum amount of guarantee (RMB10,000)	Actual amount of guarantee (RMB10,000)	Guarantee Method	Guarantee Date	Expiry Date
Shandong Commercial Group Finance Co., Ltd.	Loan	Shandong Business Group Co., Ltd.	INDUSTRIAL BANK CO.LTD. Jinan Branch		10,300.00	Pledge	2019-7-19	2022-7-19
Shandong Commercial Group Finance Co., Ltd.	Loan	Shandong Inzone Shopping Center Co., Ltd.	Huaxia Bank Huaiyin sub Branch		10,000.00	General guarantee	2020/9/30	2021/9/30
<b>Total</b>					20,300.00			

## 12.3 Lushang Health Industry Development Co., Ltd.

1. The real estate subsidiaries provide mortgage loan guarantee for the purchaser of the commodity housing by real estate operation convention. As at December 31, 2020, the amount guaranteed by real estate subsidiaries is RMB95,769,847.57.

### 2. Assets mortgage

The development projects assets which are mortgaged for the bank loans at the end of the report period are as follows:

Category	Project name	Mortgage amount
Development costs and products	Qingdao Lushang Centre project	1,274,524,750.00
	Lushang Songjiang New Town Project	959,670,100.00
	Lushang. Olympic City project	750,442,449.00

Category	Project name	Mortgage amount
	Qingdao Lanan Lishe project	250,841,287.48
	Linyi Lushang Centre project	644,423,334.00
	Heze Lushang Phoenix Project	1,838,695,344.10
	Lushang. Lanan New City project	492,156,404.91
	Lushang. Jinyue City project	37,295,233.64
	Yantai Lushang mansion project	790,570,000.00
	Qingdao Lushang Lanan mansion project	2,221,470,400.10
	Zibo Lushang Centre project	924,277,482.77
	Qingdao Lushang Centre mansion project	439,973,044.13
	Qingdao Blue Valley Health City Project	986,499,989.00
	Jinan jinmaofu Yuefu project	2,266,324,935.00
Fixed assets	Pullman Linyi Lushang Hotel	342,321,143.50
Fixed assets	Biological Technology Linshu State use (2012) Real Estate NO.43	10,941,756.68
Fixed assets	Lu 2017 Jinan Real Estate NO.0024991	20,333,326.79
Fixed assets	Changqing Industrial Park plant	1,658,761.71
Intangible assets	Pullman Linyi Lushang Hotel	22,923,350.61
Intangible assets	Biological Technology Linshu State use (2012) Land NO.43	3,228,781.72
Intangible assets	Changqing industrial park land	23,517,124.86
Accounts receivable	Pledge of property charging right	56,244,195.60
Notes receivable	Bill pledge	4,253,305.74

### 3. Contingent liabilities arising from pending litigation and arbitration and their financial impact

When a customer purchased the real estate developed by the subsidiary of Lu Shang development company, he was unable to apply for the real estate license because the nature of the real estate stated in the contract was inconsistent with the planning license. In January 2021, the arbitration ruled to terminate the contract, return the payment and compensate for the loss. Lu Shang development believes that the house involved in the case is unique and should not be checked out alone. The arbitration tribunal's handling of the rental situation and rent of the house is an award on matters beyond the scope and without the right to arbitration, which should be revoked. Therefore, an application for cancellation of arbitration was filed with the court, which filed the case on January 14, 2021. According to the current situation, Lu Shang development estimated to compensate 6.4 million yuan for various losses.

#### 12.4 Inzone Group Co., Ltd.

1、As of December 31, 2020, the guarantee situation is as follows:

Unit: RMB 10,000

Loan Company (full name)	Amount	Loan Date	Expiry Date
Shandong Inzone Shopping Center Co., Ltd.	5,000.00	2020-2-2	2021-2-1
Tai'an Inzone Shopping Mall Co., Ltd.	5,000.00	2020-3-8	2021-3-5
Qingdao Inzone Investment Development Co., Ltd.	45,200.00	2015-12-18	2027-12-17
<b>Total</b>	<b>55,200.00</b>		

2、On September 11, 2020, the company received the "civil complaint" and *summons of Shandong Gaomi people's court [(2020) Lu 0785 minchu No. 4805]*. Xu Guiyou sued the company to Shandong Gaomi people's court for lease contract dispute, requiring the company to compensate for decoration loss, interest loss, etc., involving a total amount of RMB17,598,117.60, and Inzone Group Co., Ltd. should bear the litigation costs of this case. As of the reporting date, the case is in the process of trial.

3、Inzone group Dezhou mall Co., Ltd. (hereinafter referred to as "Inzone Dezhou mall"), a subsidiary of Inzone Co., Ltd., and Shandong Ruixiang real estate Xiajin Co., Ltd. (hereinafter referred to as "Ruixiang real estate") signed the lease contract on March 12, 2014. After the people's Court of Xiajin County, Shandong Province filed a case for a dispute over the lease contract between the two parties, the ordinary procedure shall be applied according to law, The trial was held in public on December 9, 2020. Inzone recently received the *Shandong Xiajin County People's court civil judgment [(2020) Lu 1427 min Chu 1901]*, which ruled that the lease contract (Dezhou Xiajin Yinlong Central Plaza project) signed by Inzone group Dezhou mall Co., Ltd. and Ruixiang real estate was terminated on May 16, 2020, and Inzone group Dezhou mall Co., Ltd paid Ruixiang real estate RMB20 million as liquidated damages. Based on the principle of prudence, Inzone group Dezhou mall Co., Ltd has confirmed the expected loss of the above liquidated damages in 2020. Inzone held that the judgment was inconsistent with the facts. As of the report date, it had filed an appeal and paid the appeal fee.

#### Note 13 Events After the balance sheet date

### 13.1 Lushang Health Industry Development Co., Ltd.

#### 1. Profit distribution

Proposed dividend	profit or	On March 25, 2021, the board of directors of the Company approved the profit distribution plan of 2020. Based on the total capital stock of 1,009,152,199.00 shares on December 31, 2020, the Company distributed cash dividend of RMB2.00 (including tax) to all shareholders for every 10 shares, with a total dividend of RMB201,830,439.80. The above plan shall be submitted to the general meeting of shareholders for deliberation and approval before implementation.
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### 13.2 Inzone Group Co., Ltd.

Affected by the property conditions, market environment and other factors, Linyi people's Square store, a branch of Linyi Inzone Shopping Mall Co., Ltd., has suffered serious losses for many years. After many business adjustments, it has not been significantly improved. It is expected that it will be difficult to turn around the losses in the future. In March 2021, the company decided to close the store after research.

#### Note 14 Other important issues

##### Inzone Group Co., Ltd.

1、As at December 31, 2020, the total minimum rental payments of the company and subsidiaries is RMB3,155.8731 million.

2、Affected by the epidemic this year, Inzone Group Co., Ltd. reduced the rent and other income of some tenants receivable by RMB178,487,252.61 (including tax amount); Some department stores and shopping centers were closed, and the lessor reduced the rental fee payable by Inzone Group Co., Ltd. by RMB34,374,077.09.

#### Note 15 Notes of parent company

##### 15.1 Other Receivables

Items	31-Dec-20	31-Dec-19
Interest receivable		
Dividend receivable	183,079,862.41	45,720,163.59
Other receivables	24,280,238,568.17	26,496,847,864.97
<b>Total</b>	<b>24,463,318,430.58</b>	<b>26,542,568,028.56</b>

(1) Dividend receivable



Name	31-Dec-20	31-Dec-19	Year of Debt
Shandong Business Daily	2,854,964.60	2,854,964.60	8 years
Lushang Real Estate Qingdao Co., Ltd.		5,000,000.00	
Shandong Fuyuan Micro-credit Co., Ltd.	90,224,897.81	30,224,897.81	1-2years
Jining Lushang Property Co., Ltd.	50,000,000.00		Within 1 year
Dongying Inzone Real Estate Development Co., Ltd.	40,000,000.00		Within 1 year
Inzone Group Co., Ltd.		7,640,301.18	Within 1 year、1-2 years
<b>Total</b>	<b>183,079,862.41</b>	<b>45,720,163.59</b>	

## (2) Other receivables

Category	31-Dec-20		31-Dec-19	
	Amount	Bad debt	Amount	Bad debt
Individually significant and subject to separate provision				
Items as a credit risk collective group	24,426,951,537.97	146,712,969.80	26,623,197,601.89	126,349,736.92
Individually insignificant but provision for bad debts individually				
<b>Total</b>	<b>24,426,951,537.97</b>	<b>146,712,969.80</b>	<b>26,623,197,601.89</b>	<b>126,349,736.92</b>

## 1) Items as a credit risk collective group

Items provided for using an aging analysis as a collective group are as follows:

Aging	31-Dec-20			31-Dec-19		
	Amount	Proportion (%)	Bad debt	Amount	Proportion (%)	Bad debt
Within one year	27,006,072.72	14.19	2,700,607.27	27,778,049.69	15.53	2,777,804.97
1-2 year	23,217,169.03	12.20	9,286,867.61	26,706,364.84	14.93	10,682,545.94
2-3 year	26,527,017.72	13.95	21,221,614.18	57,687,670.05	32.24	46,150,136.04
Over 3 years	113,503,880.74	59.66	113,503,880.74	66,739,249.97	37.30	66,739,249.97
<b>Total</b>	<b>190,254,140.21</b>	<b>100.00</b>	<b>146,712,969.80</b>	<b>178,911,334.55</b>	<b>100.00</b>	<b>126,349,736.92</b>

Items provided for using other analysis as a collective group are as follows:

Group name	31-Dec-20			31-Dec-19		
	Amount	Provision rate (%)	Bad debt	Amount	Provision rate (%)	Bad debt
Related parties	24,236,697,397.76			26,444,286,267.34		
<b>Total</b>	<b>24,236,697,397.76</b>			<b>26,444,286,267.34</b>		



## 15.2 Long-term equity investments

### (1) General Categories

Items	31-Dec-20	31-Dec-19
Long-term equity investment	9,322,111,104.17	7,111,736,260.72
Long-term equity investment impairment provisions	55,750,953.31	55,750,953.31
Net long-term equity investments	9,266,360,150.86	7,055,985,307.41

### (2) Major long-term equity investments accounted for by cost method

Company	Cost	31-Dec-19	Increase	Decrease	31-Dec-20
Great Wall Qilu Restaurant Investment Management Co.,Ltd.	100,291,490.56	100,291,490.56			100,291,490.56
Shandong Academy of Pharmaceutical Sciences	7,000,000.00	7,000,000.00			7,000,000.00
Shandong Vocational College of Commerce	56,000,000.00	56,000,000.00			56,000,000.00
Kindergarten of Shandong Commercial Group Co., Ltd.	300,000.00	300,000.00			300,000.00
Shandong Inzone -Yingcai Kindergarten	3,426,800.00	3,426,800.00			3,426,800.00
Shandong Lushang Institute	10,000,000.00	10,000,000.00			10,000,000.00
Qilu Medical University	152,356,599.08	152,356,599.08			152,356,599.08
Shandong Guonong Logistics Technology Co., Ltd	50,000,000.00	50,000,000.00			50,000,000.00
Shandong Province Yuemei Travel Automobile Company	69,813,600.00	69,813,600.00			69,813,600.00
Shandong Animal Husbandry and Industrial and Commerce General Corp.	43,561,170.16	43,561,170.16			43,561,170.16
Shandong Commercial Group Finance Co., Ltd.	2,151,665,490.23	2,151,665,490.23			2,151,665,490.23
Lushang Health Industry Development Co.,Ltd.	1,530,188,887.96	1,530,188,887.96			1,530,188,887.96

Company	Cost	31-Dec-19	Increase	Decrease	31-Dec-20
Inzone Group Co., Ltd.	327,381,731.05	306,568,459.16	20,813,271.89		327,381,731.05
Shandong Inzone Plaza Co., Ltd.	281,901,818.31	278,547,788.31	3,354,030.00		281,901,818.31
Shandong Lushang Logistics Technology Co., Ltd.	21,510,700.00	21,510,700.00			21,510,700.00
Lushang Products Group Co., Ltd.	90,000,001.00	90,000,001.00			90,000,001.00
Shandong Yongxing Group Co., Ltd.	233,854,798.68	233,854,798.68			233,854,798.68
Shandong Fuyuan Investment Co., Ltd.	54,909,374.27	54,909,374.27			54,909,374.27
Shandong Etone Development Group Co., Ltd.	595,000,000.00	595,000,000.00			595,000,000.00
Lushang Inzone Automobile Co., Ltd.	13,500,000.00	13,500,000.00			13,500,000.00
Lushang Group Co., Ltd.	222,795,790.58	222,795,790.58			222,795,790.58
Shandong Fuyuan Investment holding Co., Ltd.	10,200,000.00	10,200,000.00			10,200,000.00
Shandong Guoxin Cultural Tourism Development Group Co., Ltd.	1,959,058,900.00	220,000,000.00	1,739,058,900.00		1,959,058,900.00
Shandong Fuyuan Micro-credit Co., Ltd.	500,000,000.00	500,000,000.00			500,000,000.00
Shandong Fuyuan Supply Chain Management Co., Ltd.	18,000,000.00	18,000,000.00			18,000,000.00
Dongyue holding Co., Ltd.	33,000,000.00	33,000,000.00			33,000,000.00
Dongying Inzone Real Estate Development Co., Ltd.	64,028,202.01	64,028,202.01			64,028,202.01
Jining Lushang Property Co., Ltd.	81,348,399.51	81,348,399.51			81,348,399.51
Tai'an Inzone Real Estate Development Co., Ltd.	90,711,690.05	90,711,690.05			90,711,690.05
<b>Total</b>	<b>8,771,805,443.45</b>	<b>7,008,579,241.56</b>	<b>1,763,226,201.89</b>		<b>8,771,805,443.45</b>

## (3) Long-term equity investments calculated by the equity method

Company	Cost	31-Dec-19	Increase	Decrease	31-Dec-20
Shandong Rileng Food Co., Ltd.	6,419,967.10	27,178,133.85	1,738,170.80		28,916,304.65
Shandong Dongfang Sugar Industry Co., Ltd.	6,000,000.00				

Company	Cost	31-Dec-19	Increase	Decrease	31-Dec-20
<b>Total</b>	12,419,967.10	27,178,133.85	1,738,170.80		28,916,304.65

## (4) Long-term equity investments impairment provisions

Items	31-Dec-19	Increase	Decrease		31-Dec-20
			Amount	Reason	
Hainan Renfa Company	34,900,000.00				34,900,000.00
Shandong Bohai Hotel Co., Ltd.	11,922,400.00				11,922,400.00
Shandong Business Daily Electronic Audiovisual Publishing House	3,000,000.00				3,000,000.00
Shandong Daily Industrial Products Company	1,400,000.00				1,400,000.00
Shandong Province Commercial Material Co., Ltd.	1,200,000.00				1,200,000.00
Shandong Commercial Group Asset Management Center	1,000,000.00				1,000,000.00
Shandong Commercial Group Weihai Company	700,000.00				700,000.00
Shandong Commercial Development Corporation	500,000.00				500,000.00
Shandong Commercial Supply and Marketing Company	500,000.00				500,000.00
Shandong Commercial Design Institute	328,553.31				328,553.31
Shandong Zhongwei International Trade Co., Ltd.	300,000.00				300,000.00
<b>Total</b>	55,750,953.31				55,750,953.31

## 15.3 Investment income

Items	31-Dec-20	31-Dec-19
I.Gains in trading financial assets(loss is marked with "-")	25,429,867.18	2,930,474.10
II.long-term equity investment income	325,412,181.05	444,905,466.96
Inc: disposal income of equity investment (loss is marked with "-")		268,783,457.92
III. Gains in available-for-sale financial assets	161,731,363.47	6,120,000.00
IV.Others		
<b>Total</b>	512,573,411.70	453,955,941.06

## 15.4 Supplementary cash flow statement

## (1) Regulate net profit as net flow from operating activities

Items	31-Dec-20	31-Dec-19
<b>1. Regulate net profit as operating activity cash flow:</b>		
Net profit	-105,611,544.66	53,179,410.01

Items	31-Dec-20	31-Dec-19
Add: asset impairment	19,876,987.58	49,318,561.77
Depreciation of fixed assets, loss of oil and gas assets, and depreciation of productive biological assets	352,937.86	407,781.87
Amortization of intangible assets	17,905.62	70,699.81
Amortization of long-term deferred expenses	31,060,155.31	24,177,627.89
Loss of disposal of fixed assets, intangible assets and other long-term assets	-28,032.34	332,235.65
Loss of retirement of fixed assets		
Loss of fair value change		-24,169,830.86
Financial expenses	1,873,262,549.01	1,778,094,683.85
Loss of investment	-512,573,411.70	-453,955,941.06
Deferred income tax assets decreased		
Deferred income tax liabilities increase	-39,551,208.18	7,144,840.81
Reduction of inventory		
Reduction of operational receivables	2,193,602,397.69	484,124,457.28
Increase in operational payables	3,936,137,167.62	-185,487,650.19
Others		
<b>Net cash flow from operating activities</b>	<b>7,396,545,903.81</b>	<b>1,733,236,876.83</b>
<b>2. Major investment and fundraising activities that do not involve cash receipts and expenditures:</b>		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Finance leased fixed assets		
<b>3. Net changes in cash and cash equivalents:</b>		
Ending balance of cash	1,515,587,356.93	1,081,647,566.37
Less: Opening balance of cash	1,081,647,566.37	1,595,810,964.53
Plus: closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
<b>Net increase in cash and cash equivalents</b>	<b>433,939,790.56</b>	<b>-514,163,398.16</b>

## (1) Cash and cash equivalents

Items	31-Dec-20	31-Dec-19
I. Cash	1,515,587,356.93	1,081,647,566.37
Inc: cash in hand	762.5	612.50
Bank deposits that can be used for payment at any time	1,513,900,532.78	1,080,353,386.24
Other currency funds that can be used to pay at any time	1,686,061.65	1,293,567.63
II. cash		

Items	31-Dec-20	31-Dec-19
III. Balance of cash and cash equivalents at the end of the period	1,515,587,356.93	1,081,647,566.37

**Note 16 Approval of consolidated financial statements**

The above consolidated financial statements have been approved and reported by the Group on April 27, 2021.

SHANDONG COMMERCIAL GROUP CO., LTD.

April 27, 2021





# 营业执照

统一社会信用代码

91110108061301173Y



(副本) (6-1)

名称 中审亚太会计师事务所 (特殊普通合伙)

类型 特殊普通合伙企业

法定代表人 王增明, 刘宗义, 陈吉先, 冯建江, 曾云

经营范围 审查企业会计报表、出具审计报告; 验证企业资本, 出具验资报告; 办理企业合并、分立、清算事宜中的审计业务, 出具有关报告; 基本建设年度财务决算审计; 代理记账; 会计咨询、税务咨询、管理咨询、会计培训; 法律、法规规定的其他业务。(市场主体依法自主选择经营范围, 开展经营活动; 依法须经批准的项目, 经相关部门批准后依批准的内容开展经营活动; 不得从事国家和本市产业政策禁止和限制类项目的经营活动。)

成立日期 2013年01月18日

合伙期限 2013年01月18日至 长期

主要经营场所 北京市海淀区复兴路47号天行建商务大厦20层2206



登记机关

2021年01月11日

国家企业信用信息公示系统网址: <http://www.gsxt.gov.cn>

市场主体应当于每年1月1日至6月30日通过国家企业信用信息公示系统报送公示年度报告。

国家市场监督管理总局监制





## 会计师事务所 执业证书

名称：中审亚太会计师事务所（特殊普通合伙）

首席合伙人：王增明

主任会计师：

经营场所：北京市海淀区复兴路47号天行建商务大厦20层2206

组织形式：特殊普通合伙

执业证书编号：11010170

批准执业文号：京财会许可[2012]0084号

批准执业日期：2012年09月28日

证书序号：0014490

## 说明

- 1、《会计师事务所执业证书》是证明持有人经财政部门依法审批，准予执行注册会计师法定业务的凭证。
- 2、《会计师事务所执业证书》记载事项发生变动的，应当向财政部门申请换发。
- 3、《会计师事务所执业证书》不得伪造、涂改、出租、出借、转让。
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发证机关：北京市财政局

二〇一〇年十二月四日

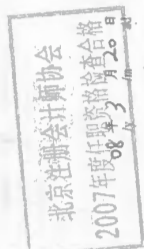
中华人民共和国财政部制



姓名 Full name 曹 江  
性别 Sex 男  
出生日期 Date of birth 1976年10月24日  
工作单位 Working unit 天职孜信会计师事务所  
身份证号码 Identity card No. 513030197610245017



有效期一年  
valid for  
an other year after



注册会计师工作单位变更事项登记  
Registration of a Change of Working Unit by a CPA

同意转出  
Agree the holder to be transferred from

转出人  
Agree the holder to be transferred to

转出人  
转出日期  
转出人  
转出日期

转出: 中南大学 2013.12.30  
转入: 中南大学 2013.12.30

一、注册机构执行业务, 必要时须向委托方出示本证书。  
二、本证书只供本人使用, 不得转让或出借。  
三、注册机构执行业务, 必要时须向委托方出示本证书。  
四、本证书遗失, 应立即向注册机构报告, 登报声明作废后, 办理补办手续。

- NOTES
1. When practicing, the CPA shall show the client this certificate when necessary.
  2. This certificate shall be exclusively used by the holder. No transfer or alteration shall be allowed.
  3. The CPA shall return the certificate to the competent Institute of CPAs when the CPA stops conducting statutory business.
  4. In case of loss, the CPA shall report to the competent Institute of CPAs immediately and go through the procedure of reissue after making an announcement of loss on the newspaper.



证书编号: 110002400025  
北京注册会计师协会  
Authorized Institute of CPAs  
发证日期: 2002 年 11 月 28 日  
Date of issuance

<p>证书编号: 110101700030 No. of Certificate</p> <p>批准注册协会: 北京注册会计师协会 Authorized Institute of CPAs</p> <p>发证日期: 2018 年 12 月 14 日 Date of Issuance</p>	<p>THE CHINESE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS 中国注册会计师协会</p> <p>中审亚太会计师事务所(特殊普通合伙)</p>
<p>年度检验登记 Annual Renewal Registration</p> <p>本证书经检验合格, 继续有效一年。 This certificate is valid for another year after this renewal.</p> <p>姓名: 孙碧英 证书编号: 110101700030</p> <p>年 月 日</p>	<p>姓名 孙碧英 Full name</p> <p>性别 男 Sex</p> <p>出生日期 1983-07-08 Date of birth</p> <p>工作单位 中审亚太会计师事务所(特殊普通合伙) Working unit</p> <p>身份证号码 370786198307086012 Identity card No.</p>

<p>证书编号: 110101700030 No. of Certificate</p> <p>批准注册协会: 北京注册会计师协会 Authorized Institute of CPAs</p> <p>发证日期: 2018 年 12 月 14 日 Date of Issuance</p>	<p>年度检验登记 Annual Renewal Registration</p> <p>本证书经检验合格, 继续有效一年。 This certificate is valid for another year after this renewal.</p> <p>年 月 日 /y /m /d</p>
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# AUDITOR'S REPORT

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SHANDONG  
COMMERCIAL GROUP  
CO., LTD.

## Auditor's Report

*Jonten [2020] Auditing No. 90522*

April 29, 2020



中天运会计师事务所(特殊普通合伙)  
JONTEN CERTIFIED PUBLIC ACCOUNTANTS

山东省 注册会计师 行业报告防伪页

报告标题： 山东省商业集团有限公司审计报告

报告文号： 中天运[2020]审字第90522号

客户名称： 山东省商业集团有限公司

报告时间： 2020-04-29

签字注册会计师： 张志良 (CPA: 370900010007)

郝英俊 (CPA: 370900010134)



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事务所名称： 中天运会计师事务所（特殊普通合伙）

事务所电话： 0531-66590389

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<i>R E P O R T</i>
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- 7、 Copy of the firm's practice certificate
- 8、 Copy of the securities business license of the firm
- 9、 Copy of signed CPA certificate

Audit Firm: Jonten Certified Public Accountants LLP

Address: No. 9, Chegongzhuang Street, Xicheng District, Beijing

Tel: 010-88395676

Fax Telephone: 010-88395200



# Auditor's Report

Jonten [2020] Auditing No. 90522

**To the Shareholders of Shandong Commercial Group Co., Ltd.:**

## **1. Opinion**

We have audited the financial statements of Shandong Commercial Group Co., Ltd.(hereinafter referred to as "Lushang Group"), which comprise the consolidated and parent company's balance sheet as at December 31, 2019, the consolidated and parent company's income statement, the consolidated and parent company's statement of cash flows, and the consolidated and parent company's statement of changes in owner's equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements of Commercial Group present fairly, in all material respects, the consolidated and parent company's financial position as at 31 December 2019, the consolidated and parent company's results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

## **2. Basis for opinion**

We conducted our audit in accordance with China Standards on Auditing for Chinese Certified Public Accountants. 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 Lushang Group in accordance with the Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities of the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

## **3. Other Information**

The management of Lushang Group (hereinafter referred to as the “Management”) is responsible for the other information. The other information comprises the information included in the Lushang Group 2019 annual report, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

#### **4. Responsibilities of the Management and Those Charged with Governance for the Financial Statements**

The Management of Lushang Group (hereinafter referred to as “the management”) is responsible for the preparation of the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation; and designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing Lushang Group’s ability to continue as a going concern, disclosing the events related to continue as a going concern (if applicable) and using the going concern basis of accounting unless the Management either intends to liquidate Lushang Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance of Lushang Group (hereinafter referred to as “those charged with governance”) are responsible to overseeing Lushang Group’s financial reporting process.

## **5. Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

During the course of audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism. We also carry out the following works:

(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 audit. 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, but not for the purpose of expressing an opinion on the effectiveness of its internal control.

(3) Evaluate the appropriateness of accounting policies used 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 basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant

doubt on Lushang Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements in accordance with the auditing standards or, if such disclosures are inadequate, we shall 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 Lushang Group to cease to continue as a going concern.


(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and also whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) obtain sufficient and appropriate audit evidence in view of financial information of entities or business activities of Lushang Group and express an opinion on the financial statements . We are responsible for guiding , supervising and executing the group audit and undertake all the responsibilities for the auditing opinion.


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

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Chinese CPA : 



Chinese CPA : 



April 29, 2020

# Consolidated Balance Sheet

Shandong Commercial Group Co., Ltd. (Consolidation)

Unit: CNY

Item	Note	December 31, 2019	December 31, 2018
<b>Current assets:</b>			
Monetary assets	VIII.1	10,675,329,176.42	9,801,801,624.05
Deposit Reservation for Balance			
Funds lent			
Trading financial assets			
Financial assets measured at fair value through current profit and loss	VIII.2	3,975,058,648.42	3,821,931,831.00
Derivative financial assets			
Notes receivable	VIII.3	263,373,724.18	103,253,570.11
Accounts receivable	VIII.4	849,783,507.15	841,226,098.35
Accounts receivable financing			
Advances to suppliers	VIII.5	5,013,510,641.50	5,562,606,739.25
Insurance premium receivable			
Reinsurance accounts receivable			
Reinsurance contract provision receivable			
Other receivables	VIII.6	6,472,331,232.13	6,618,165,649.86
Buying back the sale of financial assets			
Inventories	VIII.7	47,269,721,058.58	39,433,657,739.06
Assets held for sale			
Non-current assets maturing within one year			
Other current assets	VIII.8	1,947,437,001.47	2,259,044,513.40
<b>Total current assets</b>		<b>76,466,544,989.85</b>	<b>68,441,687,765.08</b>
<b>Non-current assets:</b>			
Grant of loans and advances	VIII.9	436,887,655.42	557,426,089.11
Debt investments	VIII.10	62,391,530.08	
Available-for-sale financial assets	VIII.11	2,039,295,600.14	1,427,571,787.21
Other debt investments			
Held-to-maturity investments	VIII.12	186,428,140.60	229,842,498.63
Long-term receivables	VIII.13	1,118,494,395.36	463,339,862.43
Long-term equity investments	VIII.14	611,937,676.02	556,046,018.93
Other equity instruments investments	VIII.15	90,000,000.00	
Other non-current financial assets			
Investment properties	VIII.16	6,652,696,674.17	6,163,994,731.67
Fixed assets	VIII.17	9,255,785,209.05	8,969,921,086.69
Construction in progress	VIII.18	509,990,548.93	1,481,309,108.51
Productive biological assets			
Oil and gas assets			
Intangible assets	VIII.19	2,402,517,496.95	2,501,439,476.24
Development expenses	VIII.20	2,005,752.96	
Goodwill	VIII.21	1,920,469,689.18	1,920,469,689.18
Long-term prepaid expenses	VIII.22	699,584,152.56	868,236,406.28
Deferred income tax assets	VIII.23	442,846,434.14	432,374,996.04
Other non-current assets	VIII.24	488,492,313.31	90,536,200.10
<b>Total non-current assets</b>		<b>26,919,823,268.87</b>	<b>25,662,507,951.02</b>
<b>Total assets</b>		<b>103,386,368,258.72</b>	<b>94,104,195,716.10</b>

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:





# Consolidated Balance Sheet(Continued)

Shandong Commercial Group Co., Ltd.(Consolidation)

Unit: CNY 章

	Note	December 31,2019	December 31,2018
<b>Current liabilities:</b>			
Short-term loans	VIII.25	13,975,735,248.16	11,273,188,556.98
Borrowings from the Central Bank			
Absorption of deposits and interbank deposit	VIII.26		27,087,343.11
Deposit funds	VIII.27		200,000,000.00
Transaction financial liabilities			
Financial liabilities measured at fair value through current profit and loss			
Derivative financial liabilities			
Notes payable	VIII.28	5,777,845,034.35	4,335,934,346.47
Accounts payable	VIII.29	9,161,847,545.95	8,931,490,371.91
Advances from customers	VIII.30	17,111,812,995.99	15,615,616,085.99
Financial assets sold for repurchase	VIII.31	880,000,000.00	272,750,000.00
Acting trading securities			
Acting underwriting securities			
Employee remuneration payable	VIII.32	413,194,597.22	345,141,882.29
Taxes and surcharges payable	VIII.33	959,206,118.87	792,719,666.74
Other payables	VIII.34	7,043,143,668.09	5,058,985,438.00
Handling charges and commissions payable			
Reinsurance accounts payable			
Liabilities held for sale			
Non-current liabilities maturing within one year	VIII.35	9,817,626,560.89	12,387,675,535.99
Other current liabilities	VIII.36	29,409,666.66	
Total current liabilities		65,169,821,436.18	59,240,589,227.48
<b>Non-current liabilities:</b>			
Insurance contract reserves			
Long-term loans	VIII.37	8,416,404,272.08	9,166,267,679.39
Bonds payable	VIII.38	7,046,143,024.16	5,411,293,369.86
Including:Preferred shares			
Perpetual bond			
Long-term payables	VIII.39	2,076,793,477.08	982,826,375.53
Long-term employee remuneration payable	VIII.40	4,179,650.75	6,662,647.28
Estimated liabilities	VIII.41	54,521,593.04	63,172,527.44
Deferred income	VIII.42	195,345,512.68	218,272,326.84
Deferred income tax liabilities	VIII.43	589,683,791.57	579,682,739.02
Other non-current liabilities			
Total non-current liabilities		18,383,071,321.36	16,428,177,665.36
Total liabilities		83,552,892,757.54	75,668,766,892.84
<b>Owners' equity:</b>			
Paid-in capital	VIII.44	2,097,767,489.50	2,097,767,489.50
Other equity instruments	VIII.45	5,910,178,377.36	6,300,178,377.36
Including:Preferred shares			
Perpetual bond	VIII.45	5,910,178,377.36	6,300,178,377.36
Capital reserves	VIII.46	618,508,819.22	551,079,932.46
Less:treasury stock			
Other comprehensive income	VIII.47	324,087,164.43	260,695,797.14
Special reserves	VIII.48		1,454,631.97
Surplus reserves	VIII.49	569,163,754.33	615,772,668.59
General risk reserves		222,861.58	
Undistributed profits	VIII.50	2,532,492,968.45	2,539,544,828.17
Total equity attributable to owners of the parent company		12,052,421,434.87	12,366,493,725.19
Minority equity		7,781,054,066.31	6,068,935,098.07
Total owners' equity		19,833,475,501.18	18,435,428,823.26
<b>Total liabilities and owners' equity</b>		<b>103,386,368,258.72</b>	<b>94,104,195,716.10</b>

Legal representative of Enterprise

Accounting Principal:

Accounting Firm's Principal:



# Consolidated Income Statement

Shandong Commercial Group Co., Ltd. (Consolidation)

Unit: CNY

Item	Note	Jan. to Dec. 2017	Jan. to Dec. 2016
I. Total operating income		39,832,847,208.90	37,935,644,434.80
Including: Operating income	VIII.51	39,767,182,865.28	37,873,014,554.73
Interest income	VIII.51	64,043,236.11	80,386,400.98
Insurance premiums earned			
Handling charges and commissions income	VIII.51	1,621,107.51	2,243,479.09
II. Total operating costs		39,144,190,190.16	37,046,636,455.24
Including: Operating costs	VIII.51	31,483,046,048.48	29,909,440,082.66
Interest expenses	VIII.51	23,190,801.36	18,943,727.32
Handling charges and commissions expenses	VIII.51	729,689.07	58,367.08
Surrender value			
Net payments for insurance claims			
Net provision for insurance contracts			
Commissions on insurance policies			
Cession charges			
Taxes and surcharges	VIII.52	932,624,574.92	800,170,323.17
Selling expenses	VIII.53	4,166,379,543.68	4,095,302,166.49
General and administrative expenses	VIII.54	1,417,827,480.13	1,361,786,707.23
Research and development expenses	VIII.55	146,068,135.88	129,132,634.61
Financial expenses	VIII.56	972,323,916.64	731,802,446.68
Including: Interest expenses	VIII.56	800,617,841.23	610,096,371.27
Interest income	VIII.56	51,385,649.39	44,734,637.00
Plus: Other income	VIII.57	78,081,948.34	56,264,242.20
Investment income ("-" for losses)	VIII.58	661,430,118.75	479,474,090.49
Including: income from investment in associates and joint ventures	VIII.58	162,854,353.05	33,024,436.39
Gains from changes in fair value ("-" for losses)	VIII.59	27,110,124.14	-95,080,424.71
Losses from credit impairment ("-" for losses)	VIII.60	-13,405,142.47	
Losses from asset impairment ("-" for losses)	VIII.61	-271,237,690.41	-410,210,645.95
Gain/(loss) from asset disposal ("-" for losses)	VIII.62	-24,577,676.30	4,908,031.47
III. Operating profits ("-" for losses)		1,146,058,700.79	944,363,273.06
Plus: Non-operating income	VIII.63	46,190,123.04	79,884,174.54
Less: Non-operating expenses	VIII.64	77,932,757.68	115,721,714.05
IV. Total profits ("-" for total losses)		1,114,316,066.15	908,525,733.55
Less: income tax expenses	VIII.65	459,066,546.50	513,774,411.72
V. Net profit ("-" for net loss)		655,249,519.65	394,751,321.83
1. Classification by continuous operation			
(1) Net profit from continuous operation ("-" for net loss)		655,249,519.65	394,751,321.83
(2) Net profit from discontinuing operation ("-" for net loss)			
2. Classification by ownership			
(1) Minority shareholders' gains and losses ("-" for net loss)		265,912,839.01	299,820,630.31
(2) Net profit attributable to owners of the parent company ("-" for net loss)		389,336,680.64	94,930,691.50
VI. Net of tax of other comprehensive income		72,439,704.88	-238,746,525.16
Net of tax of other comprehensive income attributable to owners of the parent company		63,391,367.29	-365,393,888.38
1. Other comprehensive income that cannot be reclassified into gains and losses subsequently			
(1) Changes in re-measurement of defined benefit plan			
(2) Other comprehensive income that cannot be reclassified into gains and losses under the equity method			
(3) Changes in fair value of other equity instruments investments			
(4) Changes in fair value of enterprise's own credit risk			
(5) Others			
2. Other comprehensive income to be reclassified into gains and losses subsequently		63,391,367.29	-365,393,888.38
(1) Other comprehensive income to be reclassified into gains and losses under the equity method			
(2) Changes in fair value of other debt investments			
(3) Gains and losses on changes in fair value of financial assets available for sale		55,031,722.42	-400,170,134.94
(4) Amount arising from reclassification of financial assets as Other comprehensive income			
(5) Gains and losses arising from reclassification of held-to-maturity investments as financial assets available for sale			
(6) Credit impairment reserves of other debt investments			
(7) Cash flow hedging reserves			
(8) Translation differences of financial statements denominated in foreign currency		-249,919.35	313,192.23
(9) Others		8,609,564.22	64,463,054.33
Net of tax of other comprehensive income attributable to minority shareholders		9,048,337.59	126,847,363.22
VII. Total comprehensive incomes		727,689,224.53	156,004,796.67
Total comprehensive income attributable to owners of the parent company		452,728,047.93	-270,463,196.88
Total comprehensive income attributable to minority shareholders		274,961,176.60	426,467,993.55
VIII. Earnings per share:			
Basic earnings per share			
Diluted earnings per share			

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:

雷高印洪

良玉印远

阳殷印春

# Consolidated Statement of Cash Flows

Shandong Commercial Group Co., Ltd. (Consolidation)



Item	Note	Jan. to Dec., 2019	Jan. to Dec., 2018
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		42,425,254,672.49	39,545,041,185.49
Net increase in deposits from customers and placements from corporations in the same industry			
Net increase in borrowings from the Central Bank			
Net increase in borrowings from other financial institutions			
Cash premiums received on original insurance contracts			
Net cash received from reinsurance business			
Net increase in deposits and investments from insurers			
Cash received from interest, handling charges and commissions		53,071,251.19	38,898,515.26
Net increase in funds deposit		-200,000,000.00	
Net increase in repurchase business funds		607,250,000.00	272,750,000.00
Refunds of taxes and surcharges		102,269,835.48	77,872,550.83
Cash received from other operating activities		5,139,688,810.21	5,051,079,256.39
Sub-total of cash inflows from operating activities		48,127,534,569.36	44,985,641,507.97
Cash paid for goods purchased and services received		35,552,803,904.00	31,508,189,381.28
Net increase in loans and payments on behalf		65,989,613.56	67,206,215.80
Net increase in deposits with Central Bank and interbank			
Cash paid of claims for original insurance contracts			
Net increase in funds lent			
Cash paid for interest, handling charges and commissions		4,679,207.76	4,571,707.87
Cash paid on insurance policies			
Cash paid to and on behalf of employees		3,021,399,899.09	2,830,073,807.33
Cash paid for taxes and surcharges		2,327,715,209.58	2,865,899,301.78
Cash paid for other operating activities		5,242,590,474.86	4,863,701,337.48
Sub-total of cash outflows from operating activities		46,215,178,308.85	42,139,641,751.54
Net cash flows from operating activities	VIII.66	1,912,356,260.51	2,845,999,756.43
<b>II. Cash flows from investing activities:</b>			
Cash received from disposal of investments		3,217,558,109.73	1,404,371,961.28
Cash received from returns on investments		209,846,167.40	56,896,760.71
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		31,451,802.57	30,756,741.74
Cash inflow from disposal of subsidiaries and other operating units			
Cash received from other investing activities		617,578,850.03	168,178,324.30
Sub-total of cash inflows from investing activities		4,076,434,929.73	1,660,203,788.03
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		916,358,085.71	1,213,846,551.63
Cash paid for investments		3,825,202,761.51	4,093,404,968.73
Net increase in pledge loans			
Net cash paid to acquire subsidiaries and other business units			-10,040,190.78
Cash paid for other investing activities		284,520,566.46	10,021,500.00
Sub-total of cash outflows from investing activities		5,026,081,413.68	5,307,232,829.58
Net cash flows from investing activities		-949,646,483.95	-3,647,029,041.55
<b>III. Cash flows from financing activities:</b>			
Cash received from investors		1,526,480,000.00	63,200,000.00
Including: Cash received from issuing shares of minority shareholders by subsidiaries		1,483,016,000.00	
Cash received from borrowings		19,112,258,619.59	20,439,837,357.74
Cash received from bonds issuance		15,512,314,472.48	16,830,488,377.36
Cash received from other financing activities		1,423,494,426.67	1,776,094,426.67
Sub-total of cash inflows from financing activities		37,574,547,518.74	39,109,620,161.77
Cash paid for debt repayments		33,304,645,631.88	33,584,010,577.00
Cash paid for distribution of dividends and profits or payment of interest		2,792,795,130.22	2,407,825,420.42
Including: Dividends and profits paid by subsidiaries to minority shareholders		69,825,313.57	
Cash paid for other financing activities		889,107,868.58	700,105,786.53
Sub-total of cash outflows from financing activities		36,986,548,630.68	36,691,941,783.95
Net cash flows from financing activities		587,998,888.06	2,417,678,377.82
<b>IV. Effect of fluctuation in exchange rate on cash and cash equivalents</b>		1,037,482.32	2,717,475.26
<b>V. Net increase in cash and cash equivalents</b>	VIII.66	1,551,746,146.94	1,619,366,567.96
period		6,365,777,884.75	4,746,411,316.79
<b>VI. Balance of cash and cash equivalents at the end of the period</b>	VIII.66	7,917,524,031.69	6,365,777,884.75

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:



## Shandong Commercial Group Co., Ltd. (Consolidation)

陽春印

良王印远

高洪雷印

Accounting Firm's Principal:

Accounting Principal:

Legal representative of Enterprise:

## Consolidated Statement Of Changes In Equity

Unit: CNY

The owner's equity attributable to parent company														Total owner's equity
Note	Paid-in capital (or stock)	Other equity instruments		Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserve	△Provision for normal risks	Undistributed profit	Subtotal	Reserves equity		
		Preferred shares	Perpetual bond										Others	
I. Opening balance at the beginning of the year	2,232,353,774.68		2,569,690,000.00		626,669,668.82	626,089,683.52	1,509,631.97	702,579,304.52		1,856,699,201.33	8,634,991,566.94	4,936,717,636.17	13,571,709,203.01	
ADD Accounting policy change														
Prior equity revaluation														
Business combination (only Company control)														
Others														
II. Balance at the beginning of current year	2,232,353,774.68		2,569,690,000.00		626,669,668.82	626,089,683.52	1,509,631.97	806,726,919.11		2,469,912,578.34	9,352,352,558.44	5,820,386,032.68	13,172,639,191.12	
III. Increases/ decreases in current year (add "-" for decreases)	-154,586,285.18		3,770,488,377.36		-74,990,036.36	-365,193,888.38	-55,000.00	-190,954,250.52		69,632,249.83	3,014,141,166.75	248,648,465.39	3,262,789,632.14	
Total comprehensive income						-365,193,888.38				94,930,691.50	-270,463,196.88	426,467,993.55	156,004,796.67	
Capital contributed by owners and capital decreases	-154,586,285.18		3,770,488,377.36		-74,990,036.36					-57,702,692.19	3,443,309,363.63	-107,994,214.59	3,335,215,149.04	
Including Common stocks invested by shareholders														
Holders of other equity instruments invested capital			3,770,488,377.36								3,770,488,377.36		3,770,488,377.36	
The amount of share-based payments recorded in owners' equity					1,710,390.77						1,710,390.77		1,710,390.77	
Others					-26,700,327.13						-288,989,304.50	-107,994,214.59	-396,983,519.09	
Profit distribution	-154,586,285.18													
Including Appropriation of surplus reserve														
Extraction of general risk reserves														
Profit distributed to owners (or stockholders)														
Others														
Transfers within the owners' equity														
Including Capital (or stock) transferred from capital surplus														
Capital (or stock) transferred from surplus reserve														
Reverses of losses by surplus reserve														
Carrying forward the changes in defined benefit plan to retained earnings														
Carrying forward other comprehensive income to retained earnings														
Others														
Extraction and use of special reserves														
Including Extraction of special reserves														
Use of special reserves														
Others														
Balance at the end of current year	2,097,767,489.50		6,300,178,377.36		551,679,632.46	260,695,797.14	1,454,631.97	615,772,668.59		2,519,544,828.17	12,966,493,725.19	6,068,933,098.07	18,435,429,823.26	

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm Principal:

Accounting Firm Principal:

Accounting Firm Principal:

Accounting Firm Principal:

Accounting Firm Principal:

Accounting Firm Principal:

Unit: CNY

# Balance Sheet

Shandong Commercial Group Co., Ltd.

中天运会计师事务所  
审验 Unit: CNY

Item	Note	December 31, 2019	December 31, 2018
<b>Current assets:</b>			
Monetary assets		1,081,647,566.37	1,595,810,964.53
Financial assets measured at fair value through current profit and loss		50,448,242.91	18,464,070.58
Derivative financial assets			
Notes receivable			
Accounts receivable			
Advances to suppliers			
Other receivables	XV.1	26,542,568,028.56	27,030,157,857.21
Inventories			
Assets held for sale			
Non-current assets maturing within one year			
Other current assets		4,278,284.33	3,056,457.54
<b>Total current assets</b>		<b>27,678,942,122.17</b>	<b>28,647,489,349.86</b>
<b>Non-current assets:</b>			
Available-for-sale financial assets		528,858,641.24	501,387,710.55
Held-to-maturity investments		12,000,000.00	12,000,000.00
Long-term receivables			
Long-term equity investments	XV.2	7,055,985,307.41	5,919,004,513.28
Investment properties			
Fixed assets		1,327,028.21	12,494,214.02
Construction in progress			
Productive biological assets			
Oil and gas assets			
Intangible assets		12,636.04	83,335.85
Development expenses			
Goodwill			
Long-term prepaid expenses		50,538,286.21	73,917,421.48
Deferred income tax assets			
Other non-current assets			
<b>Total non-current assets</b>		<b>7,648,721,899.11</b>	<b>6,518,887,195.18</b>
<b>Total assets</b>		<b>35,327,664,021.28</b>	<b>35,166,376,545.04</b>

Legal representative of Enterprise

Accounting Principal:

Accounting Firm's Principal:





# Balance Sheet(Continued)

Shandong Commercial Group Co., Ltd.

Unit: CNY

Item	Note	December 31,2019	December 31,2018
<b>Current liabilities:</b>			
Short-term loans		7,283,000,000.00	5,550,000,000.00
Financial liabilities measured at fair value through current profit and loss			
Derivative financial liabilities			
Notes payable		795,200,000.00	275,000,000.00
Accounts payable			
Advances from customers			
Employee remuneration payable		3,089,314.34	1,873,158.31
Taxes and surcharges payable		3,539,962.21	3,548,405.78
Other payables		5,706,887,120.03	5,957,526,707.73
Liabilities held for sale			
Non-current liabilities maturing within one year		5,800,000,000.00	9,000,000,000.00
Other current liabilities			
<b>Total current liabilities</b>		<b>19,591,716,396.58</b>	<b>20,787,948,271.82</b>
<b>Non-current liabilities:</b>			
Long-term loans		1,160,000,000.00	1,580,000,000.00
Bonds payable		7,046,143,024.16	5,411,293,369.86
Including:Preferred shares			
Perpetual bond			
Long-term payables		1,481,472,890.35	600,000,000.00
Long-term employee remuneration payable			
Estimated liabilities			
Deferred income			
Deferred income tax liabilities		39,551,208.18	32,406,367.37
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>9,727,167,122.69</b>	<b>7,623,699,737.23</b>
<b>Total liabilities</b>		<b>29,318,883,519.27</b>	<b>28,411,648,009.05</b>
<b>Owners' Equity:</b>			
Paid-in capital		1,220,000,000.00	1,220,000,000.00
Other equity instruments		5,910,178,377.36	6,300,178,377.36
Including:Preferred shares			
Perpetual bond		5,910,178,377.36	6,300,178,377.36
Capital reserves		509,997,559.84	495,579,855.12
Less:treasury stock			
Other comprehensive income		118,653,604.53	97,219,082.10
Special reserves			
Surplus reserves		3,653,312.63	3,653,312.63
Undistributed profits		-1,753,702,352.35	-1,361,902,091.22
<b>Total owners' equity</b>		<b>6,008,780,502.01</b>	<b>6,754,728,535.99</b>
<b>Total liabilities and owners' equity</b>		<b>35,327,664,021.28</b>	<b>35,166,376,545.04</b>

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:





## Income Statement

Shandong Commercial Group Co., Ltd.

Unit: CNY

Item	Note	Jan. to Dec., 2019	Jan. to Dec., 2018
I. Operating income		48,845,471.88	10,283,018.91
Less: Operating costs			
Taxes and surcharges		1,708,395.42	627,963.12
Selling expenses			
General and administrative expenses		62,354,072.58	214,079,031.29
Research and development expenses		100,006.75	
Financial expenses		361,220,859.94	257,121,800.85
Including: Interest expenses		1,778,094,683.85	1,486,358,670.26
Interest income		1,542,922,026.24	1,301,730,027.59
Plus: Other income		956,026.44	
Investment income ("-" for losses)	XV.3	453,955,941.06	111,371,392.63
Including: income from investment in associates and joint ventures		1,716,786.21	679,419.43
Gains from changes in fair value ("-" for losses)		24,169,830.86	5,288,700.67
Losses from asset impairment ("-" for losses)		-49,318,561.77	-74,795,869.36
Gain/(loss) from asset disposal ("-" for losses)			
II. Operating profits ("-" for losses)		53,225,373.78	-419,681,552.41
Plus: Non-operating income		379,846.65	332,191.48
Less: Non-operating expenses		425,810.42	201,914.50
III. Total profits ("-" for total losses)		53,179,410.01	-419,551,275.43
Less: income tax expenses			
IV. Net profit ("-" for net loss)		53,179,410.01	-419,551,275.43
1. Net profit from continuous operation ("-" for net loss)		53,179,410.01	-419,551,275.43
2. Net profit from discontinuing operation ("-" for net loss)			
V. Net of tax of other comprehensive income		21,434,522.43	97,219,082.10
1. Other comprehensive income that cannot be reclassified into gains and losses subsequently			
(1) Changes in re-measurement of defined benefit plan			
(2) Other comprehensive income that cannot be reclassified into gains and losses under the equity method			
(3) Others			
2. Other comprehensive income to be reclassified into gains and losses subsequently		21,434,522.43	97,219,082.10
(1) Other comprehensive income to be reclassified into gains and losses under the equity method			
(2) Gains and losses on changes in fair value of financial assets available for sale		21,434,522.43	97,219,082.10
(3) Gains and losses arising from reclassification of held-to-maturity investments as financial assets available for sale			
(4) Effective portion of cash flow hedging gains and losses			
(5) Translation differences of financial statements denominated in foreign currency			
(6) Others			
VI. Total comprehensive incomes		74,613,932.44	-322,332,193.33
VII. Earnings per share:			
Basic earnings per share			
Diluted earnings per share			

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:



# Cash Flow Statement

Shandong Commercial Group Co., Ltd.

Unit: CNY

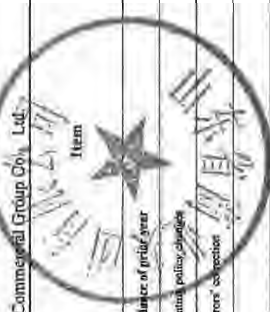
Item	Note	Jan. to Dec., 2019	Jan. to Dec., 2018
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		21,708,200.00	10,200,000.00
Refunds of taxes and surcharges			
Cash received from other operating activities		15,246,868,918.97	979,673,264.42
Sub-total of cash inflows from operating activities		15,268,577,118.97	989,873,264.42
Cash paid for goods purchased and services received			
Cash paid to and on behalf of employees		50,079,635.55	30,649,615.82
Cash paid for taxes and surcharges		6,660,180.83	1,014,328.66
Cash paid for other operating activities		13,478,600,425.76	1,478,360,007.98
Sub-total of cash outflows from operating activities		13,535,340,242.14	1,510,023,952.46
Net cash flows from operating activities	XV.4	1,733,236,876.83	-520,150,688.04
II. Cash flows from investing activities			
Cash received from disposal of investments		407,565,681.08	220,664.10
Cash received from returns on investments		171,705,072.24	67,730,555.86
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		356,400.00	2,100.00
Cash inflow from disposal of subsidiaries and other operating units			
Cash received from other investing activities		303,811.17	120,793,700.00
Sub-total of cash inflows from investing activities		579,930,964.49	188,747,019.96
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		439,479.20	960,770.63
Cash paid for investments		1,269,158,378.10	1,309,179,097.83
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities		241,340.30	
Sub-total of cash outflows from investing activities		1,269,839,197.60	1,310,139,868.46
Net cash flows from investing activities		-689,908,233.11	-1,121,392,848.50
III. Cash flows from financing activities			
Cash received from investors			
Cash received from borrowings		14,236,000,000.00	11,290,000,000.00
Cash received from bonds issuance		15,512,314,472.48	16,830,488,377.36
Cash received from other financing activities		455,400,000.00	857,253,333.33
Sub-total of cash inflows from financing activities		30,203,714,472.48	28,977,741,710.69
Cash paid for debt repayments		29,627,978,306.96	25,055,000,000.00
Cash paid for distribution of dividends and profits or payment of interest		1,936,228,207.40	1,657,371,714.50
Cash paid for other financing activities		197,000,000.00	
Sub-total of cash outflows from financing activities		31,761,206,514.36	26,712,371,714.50
Net cash flows from financing activities		-1,557,492,041.88	2,265,369,996.19
IV. Effect of fluctuation in exchange rate on cash and cash equivalents			
V. Net increase in cash and cash equivalents	XV.4	-514,163,398.16	623,826,459.65
Plus: balance of cash and cash equivalents at the beginning of the period		1,595,810,964.53	971,984,504.88
VI. Balance of cash and cash equivalents at the end of the period	XV.4	1,081,647,566.37	1,595,810,964.53

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal:

# Statement Of Changes In Equity



Item	Note	Paid-in capital (or stock)	Other equity instruments			Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profit	Total owners' equity
			Preferred shares	Perpetual bond	Others							
I. Closing balance of prior year		1,220,000,000.00		6,300,178,377.36		495,579,855.12		97,219,082.10		3,653,312.63	-1,361,902,091.22	6,754,728,535.99
Add: Accounting policy change												
Prior error correction												
Others												
II. Balance at the beginning of current year		1,220,000,000.00		6,300,178,377.36		495,579,855.12		97,219,082.10		3,653,312.63	-1,361,902,091.22	6,754,728,535.99
III. Increases/ decreases in current year (fill " " for decreases)												
Total comprehensive income												
Capital contributed by owners and capital decreases												
Including: Common stocks invested by owners												
Holders of other equity instruments invested capital												
The amount of share-based payments recorded in owners' equity												
Others												
Profit distribution												
Including: Appropriation of surplus reserve												
Profit distributed to owners (or stockholders)												
Others												
Transfers within the owners' equity												
Including: Capital (or stock) transferred from capital surplus												
Capital (or stock) transferred from surplus reserve												
Recovery of losses by surplus reserve												
Carrying forward the changes in defined benefit plan to retained earnings												
Others												
Extraction and use of special reserves												
Including: Extraction of special reserves												
Use of special reserves												
Others												
IV. Balance at the end of current year		1,220,000,000.00		5,910,178,377.36		509,997,559.84		118,653,604.53		3,653,312.63	-1,753,702,352.35	6,008,780,502.01

Legal representative of Enterprise:

Accounting Principal:

Accounting Firm's Principal



# Statement Of Changes In Equity

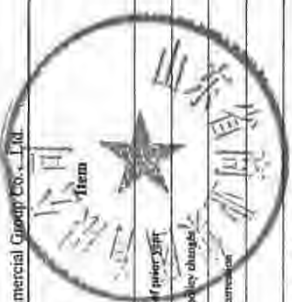
Shandong Commercial Group Co., Ltd.

Item	Note	Paid-in capital (or stock)	Other equity instruments			Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profit	Total amount equity
			Preferred shares	Perpetual bond	Others							
I. Closing balance of prior year		1,220,000,000.00		2,369,690,000.00		118,149,280.13				3,653,312.63	-790,749,166.69	3,120,743,426.07
Add: Accounting policy change												
Prior error's correction												
Others												
II. Balance at the beginning of current year		1,220,000,000.00		2,369,690,000.00		118,149,280.13				3,653,312.63	-790,749,166.69	3,120,743,426.07
III. Increases/decreases in current year (fill "+" for increases)				3,730,488,377.36		377,430,574.99		97,219,082.10		-571,152,924.53	3,633,985,109.92	
Total comprehensive income								97,219,082.10		-419,551,275.43	-322,332,193.33	
Capital contributed by owners and capital decreases				3,730,488,377.36		377,430,574.99				6,948,350.90	4,114,867,303.25	
Including Common stocks invested by owners												
Holders of other equity instruments invested capital				3,730,488,377.36								
The amount of share-based payments recorded in owners' equity												
Others						377,430,574.99				6,948,350.90	384,378,925.89	
Profit distribution										-158,550,000.00	-158,550,000.00	
Including Appropriation of surplus reserve												
Profit distributed to owners (or stockholders)										-158,550,000.00	-158,550,000.00	
Others												
Transfers within the owners' equity												
Including Capital (or stock) transferred from capital surplus												
Capital (or stock) transferred from surplus reserve												
Recovery of losses by surplus reserve												
Carrying forward the changes in defined benefit plan to retained earnings												
Others												
Extraction and use of special reserves												
Including Extraction of special reserves												
Use of special reserves												
Others												
IV. Balance at the end of current year		1,220,000,000.00		6,300,178,377.36		495,579,855.12		97,219,082.10		3,653,312.63	-1,361,902,091.22	6,754,728,535.99

Legal representative of Enterprise

Accounting Principal

Accounting Firm's Principal



## NOTES TO THE FINANCIAL STATEMENTS

From Jan. 1, 2019 to Dec. 31, 2019

(All amounts in RMB Yuan unless otherwise stated)

### Note 1 General

Shandong Commercial Group Co., Ltd. (the “Company” or the “Group”) was established on November 26, 1992. It is a state-owned sole proprietorship enterprise approved by the Shandong Provincial People’s Government and restructured by the former Shandong Provincial Department of Commerce. The Shandong Provincial People’s Government State-owned Assets Supervision and Administration Commission (hereinafter referred to as the “SASAC”) exercises the duties of the investor of the company. Unified Social Credit Code: 91370000163055647M; Registered Address: No.9777 Jingshi Road, Lixia district Jinan City; Registered Capital: RMB 1,220,000,000; Legal Representative: Gao Honglei; Current Business Situation: Normal.

According to the “Announcement on Transferring Provincial Infrastructure Funds for Provincial Famous Brand Products and Exhibition Centers into State-owned Capital” (Lufagai Investment [2006]No.617) which issued by Shandong Provincial Development and Reform Commission on June 22, 2006, the provincial Infrastructure fund loan of RMB 20 million and the corresponding owed interest of RMB 2,111,220.60 used by the Provincial Famous Brand Exhibition Center were all transferred to the Group’s state-owned capital. On June 23, 2006, the Company transferred the capital turnover of Shandong World Trade Center amounted to 80 million which paid by Finance Bureau in 2002 to the state capital, on the basis of the “Notice of Transferring the Financial Loans of the Group Corporation to State Capital” (Lucaiqi[2006]No.84) issued by Shandong Province Finance Bureau. On October 22, 2008, the Company transferred 100% state-owned investment and enjoyment of RMB222,795,790.58 of Shandong Yinzuo Group Investment Co., Ltd. on Jan.1,2008 to the national capital, according to “the Reply About the State-owned Property Rights



of Shandong Yinzuo Group Investment Co., Ltd. Gratuitously Transferred to Shandong Provincial Business Group Corporation". On December 29, 2008, the 50% equity of Shandong Silver Plaza Co., Ltd. held by Shandong World Trade Center was stripped and then held and exercised by the Company, in accordance with "Approval of Issues Concerning State-owned Equity Management of Shandong Silver Plaza Co., Ltd." issued by Shandong State-owned Assets Management Bureau (LuguoziQizi [1997] No. 55). The Company transferred the capital of the state to RMB 307,234,503.31, which is the 50% interest of Shandong Silver Plaza Co., Ltd. on December 31, 2008. After the change, the registered capital of the Company changed from RMB174.35 million to RMB800 million, while the capital reserve increased by RMB6, 491,514.49. On December 13, 2011 the Group increased its capital by 200 million yuan using state-owned capital operating budget expenditure and the registered capital of the Company changed from RMB 800 million to RMB 1 billion, and on December 31, 2012, the capital increased by 220 million yuan, and changed from RMB 1 billion to RMB 1.22 billion according to the "Revision on Amending the <Articles of Shandong Commercial Group Co., Ltd.>" issued twice by Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission (Lu Guozi Planning Letter [2011] No. 170 and Lu Guozi Planning Letter [2011] No. 180 ), respectively. The Company has completed the registration of industrial and commercial changes in relation to the above capital increase.

On April 23, 2018, according to *Notice on Amending the <Articles of Shandong Commercial Group Co., Ltd. >* issued by Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission and Shandong Provincial Social Security Fund Council (Lu Guozi Law [2018] No. 32) , Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission contributed 854 million yuan accounting for 70 percent of the registered capital, Shandong Guohui Investment Co., Ltd contributed 244 million yuan accounting for 20 percent of the registered capital, Shandong Provincial

Social Security Fund Council contributed 122 million yuan accounting for 10 percent of the registered capital. The Group has completed the registration of industrial and commercial changes in relation to the above events.

The Company's business scope: external investment and management within the scope of laws and regulations ( The projects which need to be approved legally can't start business activities until they are approved by related departments ).

#### **Note 2 The preparation of financial statements**

The Group's financial statements have been prepared on the basis of going-concern hypothesis and actual trade, in accordance with Enterprise Accounting Standards -Basic Standards issued by the Ministry of Finance of the People's Republic of China (the "Ministry of Finance") in February 2006, and specific accounting standards, application guidelines, explanation of the accounting standards and other relevant regulations issued and revised subsequently (hereinafter called as the "Enterprise Accounting Standards"). They have been prepared in compliance with the Compilation Rules for Information Disclosure by Companies Offering Securities to the public No.15 - General Requirements of Financial Reporting (revised in 2014) formulated by the China Securities Regulatory Commission (hereinafter referred to as the "SFC"), and based on the following significant accounting policies and accounting estimates.

#### **Note 3 Declaration on abiding by the Enterprise Accounting Standards**

The Group follows the requirements of Enterprise Accounting Standards in preparing financial statements, which authentically and completely reflect the Group's financial status as of December 31, 2019, and the operating results, cash flows of the year 2019 and other relevant information.

#### **Note 4 Major accounting policies and accounting estimates**

##### **4.1 Accounting period**

The accounting year starts on 1 January and ends on 31 December.

## **4.2 Reporting Currency and measurement attribute**

The Company uses RMB as the standard currency, measured in accordance with the provisions of the accounting measurement. The company generally adopts the historical cost as the measurement attribute. When the specified amount of accounting elements is in line with the requirements of enterprise accounting standards, and can be obtained and reliably measured, the replacement cost, net realizable value, present value and fair value measurement shall be adopted.

## **4.3 Basis of accounting and principle of measurement**

Cash in the Company's cash flow statement refers to cash on hand and deposits of that are readily available for payment. The cash equivalents of the cash flow statement refers to short-term (generally maturing within three months from acquisition), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

## **4.4 Foreign Currency Business**

### **4.4.1 Foreign currency transaction**

At the beginning of recognition, foreign currency transactions of the Company are translated into RMB amount by the spot exchange rate (Usually referring to the central parity of the day foreign exchange rate published by the People's Bank of China, similarly hereinafter) on the transaction day.

Foreign currency monetary items are translated at spot exchange rate on the balance sheet date. The difference of exchange is recorded into current profit or loss. However, the difference of exchange that is caused by foreign currency borrowings related to the asset of construction or production in accordance with capitalized conditions, shall be capitalized.

Foreign currency non-monetary items measured at historical cost are still

translated at spot exchange rate on the transaction day, and do not change its bookkeeping base currency amount.

#### 4.4.2 Translation method of financial statements denominated in foreign currency

The Company turns financial statements denominated in foreign currency of the overseas entities within the scope of the consolidation into financial statements denominated in RMB. The asset and liability items in the balance sheet shall be converted at the spot exchange rates prevailing on the balance sheet date. Except retained profit, the owners' equity items shall be converted at the spot exchange rates on the occurrence date. The income and expense items in the income statement shall be converted at the spot exchange rates on the date of occurrence of transaction. The difference arising from the conversion of financial statements denominated in foreign currency, solely reports under the owners' equity item in the balance sheet. Cash flow statement denominated in foreign currency shall be converted at the spot exchange rates of occurrence of cash flow. Exchange rate fluctuation is reconciling item of impact on the amount of cash, and solely reports in cash flow statement.

Converted difference in foreign currency statements related to overseas operations when they are handled shall be converted to the current profits and losses in proportion.

### 4.5 Financial Instruments

#### 4.5.1 Classification, recognition and measurement of financial assets and financial liabilities

##### 1) Classification of financial instruments:

Financial instruments refer to the contracts that give rise to both a financial asset of one entity and a financial liability or equity instrument of another entity, including: financial assets, financial liabilities and equity instruments. According to the purpose of acquiring financial assets and undertaking financial liabilities, Management classifies them into: Financial assets or financial liabilities measured at fair value

through current profit or loss, including financial assets or financial liabilities held for trading; held-to-maturity investments, receivables, and available-for-sale financial assets; other financial liabilities.

## 2) Recognition and measurement of financial instruments

a. the recognition base of financial assets or financial liabilities measured at fair value through current profit or loss:

Such financial assets or financial liabilities may be further classified into financial assets or financial liabilities held for trading and financial assets or financial liabilities directly designated under this category at the beginning of recognition. Financial assets or financial liabilities held for trading mainly refer to the stocks, bonds, funds held for sale in the near future, as well as financial liabilities that are not regarded as derivatives of effective hedging instruments or short-term repurchase; financial assets or financial liabilities directly designated under this category at the beginning of recognition mainly refer to the designation based on risk management and strategic investment needs, etc..

### Measurement method:

Financial assets or financial liabilities measured at fair value through current profit or loss are initially recognized at fair value (net of cash dividends that have been declared but not yet released, or bond interest that has been due but not yet collected). The interest or cash dividends obtained during the holding period are recognized as investment income, and changes in fair value are recorded into the current profits and losses on the balance sheet date.

At the time of disposal, the difference between the fair value and the initially recorded amount is recognized as investment income, and at the same time the fair value change gains and losses are adjusted.

## b. Held-to-maturity investments

Confirmation basis: refers to non-derivative financial assets such as fixed interest rate treasury bonds and floating interest rate corporate bonds purchased by the

company with a fixed maturity date, a fixed or recognizable return amount, and the company's clear intention and ability to hold to maturity.

**Measurement method:** The initial confirmation amount is the sum of the fair value (deducting bond interest that has reached the interest payment period but has not been received) and related transaction expenses at the time of acquisition.

During the period of holding, it shall be measured according to the amortized cost, and the interest income shall be calculated based on the actual interest rate method (if the difference between the actual interest rate and the nominal interest rate is small, according to the coupon interest rate) and be included in the investment income. The actual interest rate is determined at the time of acquisition and remains unchanged during the expected duration or applicable shorter period.

At the time of disposal, the difference between the obtained price and the book value of the investment is included in the investment income.

If a larger amount of held-to-maturity investments before the maturity date (larger amounts refer to the total amount before such investments are sold or reclassified) is sold or reclassified, the remaining invests should be reclassified as available-for-sale financial assets, and will no longer be classified as held-to-maturity investments during the current and subsequent two full fiscal years, with the following exceptions: sales or reclassifications close to the maturity date or redemption date of the investment (such as within three months prior to expiration), the change in market interest rate has no significant effect on the fair value of the investment; the remaining part of the investment is sold or reclassified after recovering almost all the initial principal amount of the investment according to the regular repayment or early repayment method stipulated in the contract; the sale or reclassification is caused by an independent matter that the company cannot control, is not expected to repeat, and is difficult to predict reasonably.

c. Receivables

**Basis for confirmation:** The creditor's rights such as accounts receivable due to



the sale of goods or provision of services, shall be initially recognized at the amount of the contract or agreement receivable from the purchaser.

Measurement method: the subsequent measurement is stated at amortized cost using the effective interest method.

When collected or disposed of, the differences between carrying values and receipts are charged to profit or loss.

d. Available-for-sale financial assets

Confirmation basis: Available-for-sale financial assets refer to the company's investment in an investee that does not have joint control or significant influence, and has no quotation in an active market, whose fair value cannot be reliably measured, financial assets which are not divided into financial assets at fair value through profit or loss, held-to-maturity investments, and assets receivables.

Measurement method: The initial recognition amount is the sum of the fair value (deducting cash dividends declared but not yet paid or bond interest that has not yet been received) and the relevant expenditures at the time of acquisition.

The interest or cash dividends obtained during the holding period are recognized as investment income. Changes in fair value are recognized in other capital reserve on the balance sheet date.

The difference between the receipts and the carrying amount of the financial asset when disposed is recognized in profit or loss; at the same time, the amount of changes recorded directly in the owner's equity is transferred out and included in the investment gains and losses.

e. Other financial liabilities

Other financial liabilities are measured at total of fair values and relevant expenditures initially and subsequently at amortized cost.

4.5.2 Determination and measurement of transfer of financial assets:

1) Determination criterion:

A financial asset is derecognized if the company has transferred almost all

risks and rewards of ownership, or it has neither transferred nor held almost all risks and rewards of ownership, but the control has been given up.

2) Measurement method:

a. Where a transfer of a financial asset in its entirety meets the criteria of termination, the difference between the two amounts below is recognized in profit or loss: ①Carrying amount of the financial asset transferred; ②The sum of the consideration received from the transfer and any cumulative gain or loss in the fair value that has been recognized directly in equity.

b. Partial transfer is measured when the conditions for de-recognition are satisfied: if the partial transfer of financial assets satisfies the de-recognition condition, the book value of the entire financial assets transferred shall be allocated between the derecognized part and the unconfirmed part according to their respective relative fair value. The difference between the following two amounts is recognized in profit and loss: ①Carrying amount of the derecognized part; ②The price of the derecognized part is equal to the sum of the amount of the derecognized part of the cumulative amount of changes in the fair value originally recorded directly in equity.

c. If the transfer of financial assets fails to meet the conditions for termination, the financial assets shall continue to be recognized and the receipts shall be recognized as a financial liability.

d. For the transfer of financial assets using the continuous involvement method, the company confirms a financial asset in accordance with the degree of continuous involvement in the transferred financial asset and confirms a financial liability at the same time.

#### 4.5.3 Termination conditions of financial liabilities

The company derecognizes the financial liability (or part of it) when the underlying present obligation part (or part of it) is discharged.

#### 4.5.4 Determination of fair value of financial assets and financial liabilities

1) If the financial assets or financial liabilities are with an active market, the fair

value is determined by the quoted price in the active market;

2) If there is no active market for financial instruments, the company uses valuation techniques to determine its fair value.

4.5.5 Test method for impairment of financial assets (excluding accounts receivable)

The company checks the book value of financial assets (excluding accounts receivable) on the balance sheet date. If there is any objective evidence showing impairment, provision for impairment is made.

1) Held-to-maturity investments: The impairment loss is calculated based on the difference between the book value and the present value of the estimated future cash flows. Specifically, the method of measuring the impairment loss of receivables is handled.

2) Available-for-sale financial assets:

When a severely decline in the fair value of an available-for-sale financial assets has occurred or can be regarded as non-temporary after considering all the factors comprehensively, the impairment loss shall be recognized. When an impairment loss of the financial asset available for sale is recognized, the cumulative loss generated from decline of fair value that had been recorded directly into the owners' equity shall be removed from the owners' equity and shall be recorded into the impairment loss. The accumulated loss transferred out equals the balance of the initial acquisition cost of available-for-sale financial assets less the recovered principal and amortized amount, the current fair value and the impairment loss that has been recognized in profit or loss.

If, after an impairment loss has been recognized on an available-for-sale financial asset, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Impairment losses on available-for-sale equity instrument investments

are reversed through equity when the equity instrument's value rises and are not reversed through profit or loss.

The objective evidence showing the impairment of a financial asset is an event that actually occurs after the initial recognition of the financial asset, affects the expected future cash flow of the financial asset, and the company can reliably measure the impact.

**4.6 Financial instruments (New) (implemented by Inzone Group Co., Ltd., Lushang Health Industry Development Co.,Ltd., subsidiaries of the Company, on January 1, 2019)**

**4.6.1 Classification and reclassification of financial instruments**

Financial instruments refer to the contracts that form one party's financial assets and other party's financial liabilities or equity instruments.

**(1) Financial assets**

The company classifies financial assets meeting the following conditions into financial assets measured at amortized cost: a. The company's business model of managing financial assets is to collect contract cash flow as the goal; b. The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount.

The company classifies financial assets meeting the following conditions into financial assets measured at fair value and the changes of which are included in other comprehensive income: a. The business model of the company's management of financial assets is to receive contract cash flow and sell the financial assets; b. The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount.

For non tradable equity instrument investment, the company can irrevocably designate it as a financial asset measured at fair value with its changes included in other comprehensive income at the initial recognition. The designation is made on the basis of a single investment and the relevant investment conforms to the definition of equity instrument from the perspective of the issuer.

Except for financial assets measured at amortized cost and financial assets measured at fair value with changes included in other comprehensive income, the company classifies them as financial assets measured at fair value with changes included in current profit and loss. At the time of initial recognition, if accounting mismatch can be eliminated or reduced, the company can irrevocably designate financial assets as financial assets measured at fair value with changes included in the current profit and loss.

When the Company changes the business model of managing financial assets, it will reclassify all affected related financial assets on the first day of the first reporting period after the change of business model, and the future applicable method will be used for accounting treatment since the self weight classification date, and no retroactive adjustment will be made to the previously recognized gains, losses (including impairment losses or gains) or interests.

## (2) Financial liabilities

Financial liabilities are classified into: financial liabilities measured at fair value through current profit and loss; financial liabilities formed by transfer of financial assets that do not meet the conditions for derecognition or continue to be involved in the transferred financial assets; financial guarantee contracts that do not belong to the first two situations, and loan commitments that do not belong to the first situation and loan at a lower than market interest rate; and Financial liabilities measured at amortized cost. All financial liabilities are not reclassified.

### 4.6.2 Measurement of financial instruments

The company's financial instruments are initially recognized at fair value. For

financial assets and financial liabilities measured at fair value with changes included in current profits and losses, relevant transaction costs are directly included in current profits and losses; for other types of financial assets or financial liabilities, relevant transaction costs are included in the initially recognized amount. For accounts receivable or notes receivable arising from the sale of products or the provision of services, which do not include or take into account significant financing components, the company shall take the expected amount of consideration that it is entitled to receive as the initial recognition amount. Subsequent measurement of financial instruments depends on their classification.

(1) Financial assets

a. Financial assets measured at amortized cost. After initial recognition, such financial assets are measured at amortized cost using the effective interest method. Gains or losses arising from financial assets measured at amortized cost and not belonging to any hedging relationship shall be included in the current profits and losses when derecognition, reclassification, amortization or impairment is recognized in accordance with the effective interest method.

b. Financial assets measured at fair value through current profit or loss: After initial recognition, such financial assets (except for some financial assets belonging to hedging relationship) are subsequently measured at fair value, and the profits or losses (including interest and dividend income) generated are included in the current profit and loss.

c. Debt instrument investment measured at fair value with changes included in other comprehensive income. After initial recognition, such financial assets are subsequently measured at fair value. The interest, impairment loss or gain calculated by the effective interest method and exchange gain or loss are included in the current profit and loss, and other gains or losses are included in other comprehensive income. When the recognition is terminated, the accumulated gains or losses previously included in other comprehensive income shall be transferred out of other



comprehensive income and included in the current profit and loss.

d. Non tradable equity instrument investment designated as fair value measurement and its change included in other comprehensive income. After initial recognition, such financial assets are subsequently measured at fair value. Except that the dividends (except for the part of investment cost recovery) obtained are included in the current profit and loss, other relevant gains and losses are included in other comprehensive income, and will not be transferred into the current profit and loss in the future.

(2) Financial liabilities

a. Financial liabilities measured at fair value through current profit or loss. Such financial liabilities include transactional financial liabilities (including derivatives belonging to financial liabilities) and financial liabilities designated to be measured at fair value with changes included in current profits and losses. After initial recognition, such financial liabilities are subsequently measured at fair value. Except for those related to hedge accounting, gains or losses (including interest expenses) arising from changes in fair value of transactional financial liabilities are included in current profits and losses. Where a financial liability is designated to be measured at fair value through profit or loss, the amount of the change in the fair value of the financial liability caused by the change in the credit risk of the enterprise itself shall be included in other comprehensive income, and the change in other fair value shall be included in the profit or loss of the current period. If the impact on the credit risk change of the financial liability is included in other comprehensive income, which will cause or expand the accounting mismatch in the profit and loss, the company will record all the gains or losses of the financial liability into the current profit and loss.

b. Financial guarantee contract (loan commitment) liabilities. The financial guarantee contract (loan commitment) liabilities shall be measured in accordance with the higher of the loss reserve amount determined according to the impairment principle of financial instruments and the balance of the initially recognized amount after

deducting the accumulated amortization amount determined in the Accounting Standards for Business Enterprises No. 14 -Income.

c. Financial liabilities measured at amortized cost. After initial recognition, such financial liabilities are measured at amortized cost using the effective interest method.

4.6.3 The company's recognition method for the fair value of financial instruments

If there is an active market financial instrument, its fair value shall be determined by the quotation in the active market; if there is no active market financial instrument, its fair value shall be determined by valuation technology. Valuation technology mainly includes market method, income method and cost method. In limited circumstances, if the recent information used to determine the fair value is insufficient, or the possible estimates of the fair value are widely distributed, and the cost represents the best estimate of the fair value within the range, the cost can represent the appropriate estimate of the fair value within the range. The company uses all information about the performance and operation of the investee available after the initial recognition date to determine whether the cost represents the fair value.

4.6.4 Recognition basis and measurement method of transfer of financial assets and financial liabilities

(1) Financial assets

The financial assets of the company shall be derecognized if they meet one of the following conditions: a. The contractual right to receive the cash flow of the financial asset is terminated; b. the financial asset has been transferred, and the company has transferred almost all risks and rewards of the ownership of the financial asset; c. The financial asset has been transferred, although the company has neither transferred nor retained almost all rewards of the ownership of the financial asset, but has not retained the control over the financial asset.

If the company has neither transferred nor retained almost all the remuneration for the ownership of the financial assets, and has retained the control over the financial

assets, it shall recognize the relevant financial assets according to the degree of continuous involvement in the transferred financial assets, and recognize the relevant liabilities accordingly.

If the transfer of financial assets meets the conditions for derecognition as a whole, the difference between the following two amounts shall be included in the current profit and loss: a. the book value of the transferred financial assets on the date of derecognition; b. the consideration received from the transfer of financial assets and the amount of derecognition corresponding to the accumulative amount of changes in the fair value originally included in other comprehensive income (the financial assets involved in the transfer are Financial assets classified as financial assets measured at fair value with changes included in other comprehensive income).

If the partial transfer of financial assets meets the conditions for derecognition, the overall book value of the transferred financial assets shall be apportioned between the derecognized part and the non derecognized part according to their respective fair values on the transfer date, and then the difference between the following two amounts shall be included in the current profits and losses: a. the book value of the derecognized part on the derecognized date; b. the derecognized part The sum of the consideration received in part and the amount corresponding to the derecognized part of the accumulative amount of changes in fair value originally included in other comprehensive income (the financial assets involved in the transfer are classified as financial assets measured at fair value and the changes are included in other comprehensive income).

When the non tradable equity instrument investment designated by the company as fair value measurement and its changes are included in other comprehensive income is derecognized, the accumulated gains or losses previously included in other comprehensive income are transferred out of other comprehensive income and included in retained earnings.

## (2) Financial liabilities

When the current obligation of a financial liability (or part of it) has been discharged, the company shall derecognize the financial liability (or part of it).

When a financial liability (or part of it) is derecognized, the company shall record the difference between its book value and the consideration paid (including non cash assets transferred out or liabilities assumed) into the current profit and loss.

4.6.5 The determination method and accounting treatment method of expected credit loss

(1) Determination method of expected credit loss

On the basis of expected credit loss, the company conducts impairment accounting and recognizes loss reserves for financial assets (including receivables) measured at amortized cost, financial assets (including receivables financing) classified as financial assets measured at fair value with changes included in other comprehensive income, lease receivables.

The company assesses whether the credit risk of relevant financial instruments has increased significantly since the initial recognition on each balance sheet date. The process of credit impairment of financial instruments is divided into three stages. Different accounting treatment methods are adopted for the impairment of financial instruments in different stages: (1) In the first stage, if the credit risk of the financial instrument has not increased significantly since the initial recognition, the company will measure the loss reserve according to the expected credit loss of the financial instrument in the next 12 months, and calculate the interest income according to its book balance (i.e. without deducting the impairment reserve) and the actual interest rate; (2) In the second stage, if the credit risk of a financial instrument has increased significantly since its initial recognition, but no credit impairment has occurred, the company will measure the loss reserve according to the expected credit loss of the entire duration of the financial instrument, and calculate the interest income according to its book balance and actual interest rate; (3) In the third stage, in case of credit impairment after initial recognition, the company will measure the loss reserves

according to the expected credit loss of the whole duration of the financial instrument, and calculate the interest income according to its amortized cost (book balance minus the provision for impairment accrued) and the actual interest rate.

For financial instruments with low credit risk on the balance sheet date, the company can directly make the assumption that the credit risk of the instrument has not increased significantly since the initial recognition without comparing it with the credit risk at the time of initial recognition.

If the default risk of a financial instrument is low, the debtor has a strong ability to perform its contractual cash flow obligations in the short term, and even if there are adverse changes in the economic situation and operating environment in a long period of time, it may not necessarily reduce the borrower's ability to perform its contractual cash flow obligations, the financial instrument is considered to have a lower credit risk.

When measuring the credit impairment of financial instruments, the company assesses whether the credit risk significantly increases considering the following factors: (1) Whether the internal price index caused by the change of credit risk changes significantly; (2) If the existing financial instrument is generated or issued as the source of a new financial instrument on the reporting date, whether the interest rate or other terms of the financial instrument have changed significantly; (3) Whether the external market indicators of credit risk of the same financial instrument or similar financial instrument with the same expected duration have changed significantly; (4) Whether the external credit rating of financial instruments actually or expected changes significantly; (5) Whether the actual or expected internal credit rating of the debtor is lowered; (6) Adverse changes in business, financial or economic conditions that are expected to result in a significant change in the ability of the debtor to meet its debt service obligations; (7) Whether there is any significant change in the actual or expected operating results of the debtor; (8) Whether the credit risk of other financial instruments issued by the same debtor increases significantly; (9) Whether there is any

significant adverse change in the regulatory, economic or technological environment of the debtor; (10) Whether there is a significant change in the value of collateral as a debt mortgage or the quality of guarantee or credit enhancement provided by a third party; (11) Whether there is a significant change in the economic motivation that is expected to reduce the debtor's repayment according to the time limit stipulated in the contract; (12) Whether the company's credit management methods for financial instruments have changed, etc.

When one or more events have an adverse impact on the expected future cash flow of a financial asset, the financial asset becomes a financial asset with credit impairment. The objective evidence of credit impairment mainly includes: (1) Major financial difficulties of the issuer or the debtor; (2) The debtor violates the terms of the contract, defaults or delays in paying interest or principal, etc., which is more than 90 days overdue (including); (3) The creditor gives the debtor concessions that will not be made in any other circumstances due to economic or contractual considerations related to the debtor's financial difficulties; (4) The debtor is likely to go bankrupt or undergo other financial restructuring; (5) The active market of the financial assets disappears due to the financial difficulties of the issuer or the debtor; (6) Purchase or source a financial asset at a substantial discount that reflects the fact that a credit loss has occurred.

## (2) Accounting treatment of expected credit loss

In order to reflect the change of credit risk of financial instruments since the initial recognition, the company remeasures the expected credit loss on each balance sheet date, and the increase or reversal amount of loss reserves resulting therefrom shall be included in the current profit and loss as impairment loss or gain, and the book value of the financial assets listed in the balance sheet or included in the forecast according to the type of financial instruments Liabilities (loan commitment or financial guarantee contract) or debt investments included in other comprehensive income (measured at fair value and its change included in other comprehensive



income).

For financial assets other than notes receivable, accounts receivable and other receivables, such as debt investments, other debt investments, long-term receivables other than lease receivables, loan commitment and financial guarantee contract, the company measures loss reserves in accordance with the general method, namely "Three-stage" model.

#### **4.7 Accounts receivable**

4.7.1 The confirmation standard for bad debts: the receivables of the Group (including accounts receivable and other receivables and other receivables, the same below) meet one of the following conditions are confirmed as bad debts:

1) When the debtor has gone bankrupt or died, the receivables are still unrecoverable after his bankruptcy property or estate is paid off.

2) The debtor has not fulfilled its obligation to pay within a relatively long period of time, and there is ample evidence that it is impossible to recover or withdraw.

4.7.2 Accounting method for bad debt provision: The Group adopts the allowance method to calculate bad debts.

4.7.3 The method of reselling bad debts: For receivables that cannot be recovered, it will be regarded as a bad debt loss after approval and written off against bad debt provision.

4.7.4 Provision method and accrual ratio of bad debt:

For a single receivable with significant amount, a separate impairment test is conducted at the end of the period. If there is objective evidence that it has been impaired, the impairment loss shall be recognized according to the difference between the current value of its future cash flow and its book value, and the provision for impairment shall be made as well. For accounts receivable that are not individually significant, and for individually significant receivables that have not been impaired after a single test, the company's current situation is based on the risk of loss from

similar or similar receivables in previous years. Determine the proportion of receivables for bad debts.

For other receivables (including bills receivable, prepayments, interest receivable, long-term receivables, etc.), where there is conclusive evidence that there is a significant difference in their recoverability, provision for bad debts is made using the individual recognition method.

The amount corresponding to the companies included in the scope of the consolidated statement is generally not withdrawn from provision for bad debts.

#### **4.8 Confirmation and Measurement of Inventory**

##### **4.8.1 Inventory classification**

Inventories refer to the materials or materials consumed by enterprises during their daily activities, such as finished products or commodities held for sale, products in process of production, or production processes or labor services. The company's inventory is mainly divided into raw materials, products, inventory, and turnover materials.

##### **4.8.2 Valuation of acquired and dispatched inventories**

The inventories acquired are measured by actual costs, and consumed and dispatched are measured by weighted average method. The low-value consumables are amortized at the time of use.

**4.8.3 Stock inventory system:** The Company uses the perpetual inventory system for inventory.

**4.8.4 Recognition criterion and withdrawal method of provision for inventory devaluation:**

Inventories are measured by the principle of the lower one between cost and net realizable value on the balance sheet date.

The net realizable value of inventory that can be directly used for sale, such as finished products, commodities and materials for sale, is determined by the estimated

selling price of such inventories minus the estimated selling expenses and related taxes. The net value of the net realizable value of the stocks of materials held, etc. shall be determined based on the estimated selling price of the finished products produced minus the estimated cost to be incurred upon completion, estimated selling expenses and related taxes. For those inventories held for sales or labor contracts, the net realizable values are based on the contract prices and if the inventories held are more than those already ordered, the net realizable values of the excess are with reference to the market prices.

Inventory falling price reserves is generally made by item, but made by class for those inventories of large amounts and low values. For those items that are produced and sold with the same ultimate use or purpose and in the same region, and are difficult to separate from other items, provision is made by total group of inventories.

Preparation of provision for inventory devaluation is made if the cost of inventory is higher than the net realizable value on the balance sheet. If factors that lead to inventories providing for in the prior periods have disappeared, the provision are written back and reversed. A reversal of an impairment loss will not result in the assets carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years. The reversal is charged to the profit or loss.

#### **4.9 Assets held for sale**

##### **4.9.1 The basis of the assets classified as held for sale**

Any non-current assets or disposal group shall be classified as held for sale if the following criteria are met:

①According to the similar transactions for selling such assets or disposal group in practice, the assets must be available for immediate sale under current condition.

②The sale is highly probable with decision made on a probable selling proposal

and the firm purchase commitment has been obtained, the sale is expected to be completed within one year. Certain regulations request that approvals must be given by relevant authority or supervision regulator before the assets can be sold.

The confirmed purchase commitment refers to the legally binding purchase agreement signed by the company and other parties. The agreement includes important terms such as the transaction price, time, and severe penalties for breach of contract, so it is extremely unlikely that there will be a major adjustment or revocation of the agreement.

#### 4.9.2 Accounting methods for assets held for sale

Prior to the assets initially classified as held for sale or disposal group, the carrying amounts of the assets shall be measured in accordance with applicable accounting standards. The Company shall recognize an impairment loss and account it in to income statement for the current period, for any initial or subsequent write-down of the asset(or disposal group) to its fair value less costs to sell if the carrying amount is higher than its fair value less costs to sell. In the meantime, provision for assets impairment shall be made.

The Company shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset and shall reverse the impairment to the extent that previously recognized when being classified as held for sale, the revisable amount is recognized in the income statement for the period. Any impairment from the period when the assets are not classified as held for sale cannot be reversed.

The impairment loss recognized for a disposal group shall reduce the carrying amount of goodwill of disposal group first, and then reduce the carrying amount of the non-current assets based on its proportion on the book.

The Company shall recognize a gain for any subsequent increase in fair value less costs to sell of a disposal group and shall reverse the impairment to the extent that previously recognized when being classified as held for sale, in accordance with applicable measuring standards, the revisable amount is recognized in the income

statement for the period. Any impairment from the period when the assets are not classified as held for sale and reduced goodwill cannot be reversed.

For any subsequently reversed amount, after the impairment loss is recognized for held for sale disposal group, the Company shall increase the carrying amount of disposal group based on the proportion of carrying amount of non-current assets excluding goodwill.

Non-current assets classified as held for sale or disposal group shall not be depreciated or amortized, interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

When the Company derecognizes the held for sale assets or disposal group, the remaining unrecognized gain or loss shall be accounted in the income statement.

When held for sale assets or disposal group cannot meet the criteria for held for sale classification so that they are not recognized as held for sale or non-current asset will be removed from disposal group, they shall be measured at the lower of the following amounts: (1) carrying amount of assets prior to it classified as held for sale, which is the amount after depreciation, amortization or impairment adjustment as it had not been classified as held for sale; (2) recoverable amount.

#### **4.10 Recognition and measurement of investment properties**

##### **4.10.1 Types and measurement models of investment properties**

The investment properties in the Company comprise buildings leased out under operating leases, land leased out under operating leases and land held for long-term capital appreciation.

The Company's investment properties is initially measured at cost and subsequently measured at fair value.

##### **4.10.2 Accounting policies based on fair value model**

The Company's investment properties adopts the fair value model for subsequent measurement, without depreciation or amortization, and adjusts its book value based

on the fair value of the investment properties on the balance sheet date. The difference between the fair value and the original book value is included in the current profit and loss, and the impact of the deferred income tax assets or deferred income tax liabilities is considered.

When the investment properties measured by the fair value model is converted into the self use real estate, the fair value on the date of conversion shall be taken as the book value of the self use real estate, and the difference between the fair value and the original book value shall be included in the current profit and loss.

When the self use real estate or inventory is converted to the investment properties measured by the fair value mode, the investment properties shall be valued according to the fair value on the date of conversion. If the fair value on the date of conversion is less than the original book value, the difference shall be included in the current profit and loss; if the fair value on the date of conversion is greater than the original book value, the difference shall be included in the owner's equity.

The Investment properties that has been measured by fair value model shall not be changed from fair value model to cost model.

When the investment properties is disposed, or permanently withdrawn from use, and it is expected that no economic benefits can be obtained from its disposal, the recognition of the investment properties shall be terminated. The disposal income from the sale, transfer, scrap or damage of the investment properties shall be included in the current profit and loss after deducting its book value and relevant taxes.

#### **4.11 Long-term equity investments**

##### **4.11.1 The determination of investment costs**

1) Long-term equity investments obtained from a business combination under common control

The company uses the equity combination method to determine the cost of business combination for a business combination under common control.



If the combining party makes payment in cash, transfers non-cash assets, bears debts or issues equity securities as the consideration for the business combination, the share of owners' equity of the acquire obtained on the combination date in the book value of the ultimate controller's consolidated financial statement is recognized as the initial cost of the long-term equity investments. Accounting to the difference between the initial cost of the long-term equity investments and the book value of consideration paid for the combination or total par value of shares issued, capital reserve (capital premium or equity premium) is adjusted; if capital reserve (capital premium or equity premium) is insufficient to cover the difference, the remaining amount shall be charged against retained earnings. The direct expenses related to the combination, including the audit fees, evaluation fees, and legal service fees paid for the combination, shall be recognized in the profits and losses of the current period when they occur.

The cost of the long-term equity investments formed by the combination under common control shall be recognized in accordance with the share of the net assets obtained from the evaluation of the subsidiary, if the subsidiary company adjusts its book value according to the value of assets and liabilities determined according to the restructuring. The difference between the cost and the carrying amount of the consideration paid is adjusted to the owner's equity.

2) Long-term equity investments obtained from business combination not under common control

The company adopts the purchase method to determine the combination cost for the controlling combination not under common control and uses the determined combination cost as the initial investment cost of the long-term equity investments. The combination cost includes the assets paid, the liabilities incurred or assumed, the fair value of the issued equity securities, and the sum of the transaction costs of the issued equity securities or debt securities for the acquisition of the controlling power.

The purchaser shall be accounted for in the profits and losses of the current period

when it occurs as an intermediary, such as auditing, legal services, assessment and consulting, and other related administrative expenses incurred for the business combination.

For a business combination achieved through multiple transactions in stages, its business combination cost is the sum of the costs of each individual transaction. When absorbing merger are adopted, the balance of the business combination costs greater than the fair value of the identifiable net assets of the acquire is recognized as goodwill in the individual financial statements; when control merger is adopted, if the amount of the combination costs is greater than the fair value of the identifiable assets and liabilities, goodwill shall be recognized when the consolidated financial statements are prepared; and the difference between the combined costs less than the fair value of the identifiable net assets of the acquire obtained in the combination shall be included in the profit or loss of the current period.

### 3) Long-term equity investments obtained by other methods

The initial costs of long-term equity investments obtained by payments of cash shall be the purchase prices actually paid.

The initial costs of long-term equity investments obtained by equity securities shall be stated at their fair values (excluding the declared but undisbursed cash dividends or profits received from the invested entity).

The initial costs of long-term equity investments invested by an investor shall be the value agreed in an investment contract or agreement, unless the value stipulated in the contract or agreement is unfair.

If the fair value of the non-monetary assets exchangeable with commercial nature and the assets exchanged or assets exchanged can be reliably measured, the long-term equity investments exchanged for the non-monetary assets will be based on the fair value of the assets exchanged to determine its initial value, unless there is conclusive evidence that the fair value of the assets exchanged is more reliable; if the above prerequisites are not met, the initial cost shall be stated by the book value of the assets

exchanged out and the related taxes and fees payable.

For long-term equity investments acquired through debt restructuring, the initial investment cost is determined on the basis of fair value.

#### 4.11.2 Subsequent measurement and recognition of profit and loss

The company applies cost method to account for the long-term equity investments that the investee can be controlled; Long-term equity investments in associates and joint ventures are accounted for under the equity method. When accounting for long-term equity investments by the equity method:

1) If the initial cost of a long-term equity investment is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted; if the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

2) After the long-term equity investments is obtained, the company shall recognize the investment profit and loss and adjust the book value of the long-term equity investments in accordance with the share of the net profit or loss of the invested entity that should be enjoyed or shared. The share of net profits and losses of the invested entity that should be enjoyed or shared shall be confirmed after the net profits of the invested company adjusted, based on the fair value of the identifiable assets of the invested entity at the time of acquisition, and offset the unrealized gains and losses calculated on the basis of the proportion of shares belong to the company arising from the internal transactions with the associated venture and the joint ventures (but if internal transaction losses are not realized, they shall be fully recognized).

3) The recognition of the net loss incurred by the invested entity is limited to the book value of the long-term equity investments and other long-term equity that

essentially constitutes the net investment of the investee, and shall be reduced to zero, unless additional losses shall be charged according to the stipulation in the contract or agreement.

4) The portion of the profit or cash dividend declared to be distributed by the invested entity shall be calculated and the book value of the long-term equity investments shall be correspondingly reduced.

5) For other changes in the owner's equity of the invested entity other than net profit or loss, if the shareholding ratio remains unchanged, the company calculates the portion of the long-term equity investments that is to be enjoyed or assumed in accordance with the proportion of shares held and adjusts the book value of the long-term equity investments, and reduces capital reserve simultaneously.

4.11.3 The basis of determine for joint control and significant influence on the invested company

1) Judgment basis for joint control:

Joint control refers to the common control of an economic activity in accordance with the contract. Generally, when the joint venture is established, the parties to the joint venture stipulate in the investment contract or agreement that in the process of making the important financial and production and operation decisions of the joint venture, the decisions must be agreed upon by all the parties to the joint. When determining whether to constitute a common control, the following three conditions are generally used as the basis for the determination:

a. No joint venture party can independently control the production and business activities of the joint venture.

b. Decisions on the basic business activities of joint ventures require the consent of the joint venture parties.

c. Each joint venture may appoint one of the joint venture parties through the contract or agreement to manage the daily activities of the joint venture. However, it must exercise management power within the financial and operating policies agreed by

all parties.

2) Judgment basis of significant influence:

Significant influence refers to the right to participate in decision-making on the financial and operating decisions of an enterprise, but it cannot control or jointly control the formulation of these policies with other parties. In determining whether there is significant influence, the following five conditions are generally used as a basis for judgment:

- a. There are representatives of the investee company's board of directors or similar authorities.
- b. Participate in the policy development process of the invested entity, including the formulation of dividend distribution policies.
- c. Significant transactions occur with the invested entity, which in turn may affect the decision of the invested entity on production and operations.
- d. Dispatch management personnel to the invested entity.
- e. Provide key technologies to the investee.

4.11.4 Methods of impairment test and provision for impairment

1) The company estimates the recoverable amount of long-term equity investments in subsidiaries, joint ventures, and associates on the balance sheet date. If the recoverable amount is lower than the book value, the company recognizes the impairment loss. The recoverable amount is determined by the higher of the net amount of the fair value of the assets minus the disposal expenses and the present value of the future cash flow of the assets. For those investments that do not have joint control or significant effect, that have no quotation in active markets and whose fair values cannot be reliably estimated, impairment losses are determined based on the difference between the carrying amount and present value of estimated future cash inflows discounted by the asset return rate in the similar financial assets market. The impairment loss is recognized in the current profit and loss, and provision for impairment is also made.

Once the impairment provision for long-term equity investments is recognized, it cannot be reversed.

2) Goodwill depreciation preparation

Goodwill due to business combination is performed for impairment annually, and the company determines whether to make provision for impairment according to the test conditions. Once the impairment loss is confirmed, it cannot be reversed.

#### **4.12 Confirmation and Measurement of Fixed Assets**

##### **4.12.1 Confirmation condition of fixed assets**

Fixed assets refer to the tangible assets held for the purpose of selling commodities, providing labor service, renting or business management, and having a useful life of more than one year.

1) The Company recognizes the fixed assets when they meet the following conditions:

a. The economic benefits associated with the fixed assets are likely to flow into the company;

b. The cost of the fixed asset can be reliably measured.

2) Initial measurement of fixed assets:

Fixed assets are initially measured at the actual cost of acquisition and taking into account the impact of the estimated cost of disposal. If the purchase price of a fixed asset exceeds the normal credit terms for deferred payment and is essentially of a financing nature, the cost of the fixed asset is determined on the basis of the present value of the purchase price. The difference between the actually paid price and the present value of the purchase price shall be included in the current profit and loss within the credit period except for the capitalization.

3) Subsequent measurement of fixed assets: All fixed assets shall be depreciated unless the fixed assets had been fully depreciated and are still being used and land is



separately measured.

Straight-line depreciation method is adopted by the Group. The depreciation of fixed assets with reduced value shall be calculated according to the amount of reduced value.

4.12.2 The estimated useful life, estimated net residual value rate and annual depreciation rate are as follows:

Categories	Useful life	Depreciation rate%	Residual rate%
Property and plant	10-40	2.38—9.50	5
Equipment	5-20	4.75—19.00	5
Transportation	4-10	9.50—23.75	5
Professional equipment	5-10	9.50—19.00	5
Others	3-10	9.50—31.67	5

The Group should review the estimated useful life, estimated net residual value and depreciation method at the end of each year. If any change has occurred, it shall be regarded as a change in the accounting estimates.

4.12.3 Confirmation standards and accrual methods for impairment of fixed assets

On the balance sheet date, if there are indications that the fixed assets are impaired, provision for impairment of fixed assets shall be made in accordance with the method described in Note 4 (15) of this financial statement.

4.12.4 Recognition basis and valuation method of financing lease fixed assets

1) It is recognized as a finance lease if it meets one or more of the following criteria:

a. At the expiration of the lease term, ownership of the leased assets is transferred to the lessee;

b. The lessee has the option to purchase the leased asset. The purchase price is expected to be much lower than the fair value of the leased asset when the option is exercised. Therefore, the lessee will be able to reasonably determine that the lessee

will exercise this option;

c. Even if the ownership of the assets is not transferred, the lease period accounts for the majority of the useful life of the leased assets (75% or more);

d. The present value of the minimum lease payment on the lease start date is almost equal to the fair value of the leased asset on the lease start date (90% or more); the present value of the minimum lease receipt amount of the lessor on the lease start date is almost equivalent to the fair value of the leased assets on the lease start date (90% or above);

e. The leased asset is of a special nature. Only the lessee can use it if it is not greatly modified.

2) Fixed assets financed by lease are accounted for at the lower of the fair value of the leased assets on the lease start date and the present value of the lowest lease payments, and are depreciated according to the depreciation policy of the self-owned fixed assets. If it is reasonably certain that the ownership of the leased asset will be obtained when the lease expires, depreciation will be made within the useful life of the leased asset; if it cannot be reasonably determined that the ownership of the leased asset can be obtained when the lease expires, it shall be included in the shorter life of the lease term and the useful life of the leased asset.

#### **4.13 Confirmation and measurement of construction in progress**

4.13.1 Construction in progress refers to the necessary expenses incurred before the acquisition or construction of the asset to its intended use status, including the cost of materials used for construction, labor costs, relevant taxes and fees payable, the borrowing costs to be capitalized, and the expenses to be amortized. Indirect costs, etc.

##### **4.13.2 Conversion date of transfer to fixed assets:**

Constructions in progress are carried down to fixed assets on their actual costs when completing and achieving estimated usable status. The fixed assets that have been completed and reached estimated usable status but have not yet been through

completion and settlement procedures are charged to an account according to their estimate values; adjustment will be conducted upon confirmation of their actual values.

#### 4.13.3 Impairment:

On the balance sheet date, if there is evidence that indicates the existence of asset impairment, provisions for impairment of construction in progress shall be made according to the method described in Note 14(15) of this financial statement.

### **4.14 Confirmation and Measurement of Intangible Assets**

#### 4.14.1 Initial measurement of intangible assets

Intangible assets are initially measured at the cost of acquisition.

#### 4.14.2 Service life and amortization of intangible assets

The useful of the intangible assets derived from contractual rights or other legal rights shall not exceed the duration of the contractual rights or other legal rights. If the contractual rights or other legal rights are extended at the time of expiration due to the renewal of the contract, and there is evidence that the company's renewal does not require a large amount of cost, the renewal period shall be included in the service life. The useful life of the intangible assets without a clear contract or law is judged by the comprehensive factors of the company (such as employing the relevant experts to demonstrate, compare with the same industry, the historical experience of the enterprise, etc.).

An intangible asset with a finite useful life is amortized over the useful life in accordance with the expected realization of the economic benefits associated with the intangible asset. If it cannot be reliably determined, the straight-line method of amortization is used. An intangible asset with an indefinite useful life is not amortized during the holding period. However, the useful life of the intangible asset is reviewed annually and an impairment test is conducted.

#### 4.14.3 Research and development expenses

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The internal research and development project expenditures are divided into research stage expenditures and development stage expenditures. Expenses of the research stage refer to the expenses incurred in the original planned investigation stage for acquiring and understanding new scientific or technological knowledge, and should be included in the current profit and loss when occurred. Development expenses is the expenditure that the company applies the research or other knowledge to a plan or design before a commercial production or use is carried out to produce new or substantial improvements in materials, devices, and products, etc. Only when the following conditions are met can the capitalization of related expenses be recognized as intangible assets:

- (1) It is technically feasible to complete the intangible assets so that they can be used or sold;
- (2) It is intended to finish and use or sell the intangible assets;
- (3) The method that the intangible assets generate economic benefits, including existence of a market for products produced by the intangible assets or for the intangible assets themselves, shall be proved. Or, if to be used internally, the usefulness of the assets shall be proved;
- (4) Adequate technical, financial, and other resources are available to complete the assets, and the company has the ability to use or sell the assets;
- (5) The expenditures attributable to the intangible assets during their development phase can be reliably measured.

4.14.4 The recognition criteria and methods for provisions for impairments of intangible assets:

At the balance sheet date, if there are indications that intangible assets have been impaired, provision for impairment of intangible assets shall be made according to the method described in Note 4. (15).

#### 4.15 Determination of asset impairment

The Company's asset impairment, not including inventory, equity instruments that have no quotation in an active market and fair value cannot be reliably measured, investment real estate measured at fair value, consumable biological assets, assets formed by construction contracts, deferred income tax assets, financing the leaseholder's unguaranteed residual value and financial assets, are determined as follows:

##### 4.15.1 Impairment test

At the balance sheet date, the Company assesses whether there is an indication that the assets may be impaired. Goodwill generated by business combination and intangible assets with indefinite useful life shall be tested for impairments every year, whether or not there are indications of impairments. If there are following indications, the impairments of assets may occur:

- 1) The market price of the asset has fallen dramatically in the current period, and its decline is significantly higher than the estimated decline due to time lapse or normal use;
- 2) The economic, technical or legal environment in which the Company operates and the market in which the assets are located have a significant change in the current period or in the near future, so the Company will be affected adversely;
- 3) Market interest rates or rates of return on investment of other markets are improved in the current period, which affects the discount rate that the Company calculates the present value of the future cash flow expected to be derived from the asset and results in a significant reduction in its recoverable amount;
- 4) There is evidence that the asset has obsolesced or has been damaged;
- 5) The asset has been or will be left unused, or terminated for use, or disposed ahead of schedule;
- 6) There is evidence that the economic performance of the assets has been below

or will be lower than expected.

7) Other indications that the asset may have been impaired.

#### 4.15.2 Measurement of recoverable amounts of assets or asset group

The recoverable amount shall be recognized on the basis of the higher of fair values of the asset less costs to sell and the present values of future cash flows expected to be derived from the asset.

#### 4.15.3 Recognition of asset impairment loss

If there is an indication that an asset may be impaired, the Company shall estimate its recoverable amount on the basis of the individual asset. If it is difficult to estimate the recoverable amount of an individual asset, the Company shall estimate the recoverable amount of the asset portfolio that individual asset belongs to. Asset groups shall be recognized according to whether or not the major cash inflow generated by the asset group is independent from cash inflows of other assets or asset groups.

If the recoverable amount of the asset group or the combination of asset groups is lower than its carrying amount, the impairment loss shall be recognized accordingly. At first, the amount of the impairment loss deducts the book value of goodwill allocated to the asset group or the combination of asset groups. After that, book values of other assets except goodwill shall be deducted according to proportion of the book value of each asset group or combination of asset groups in the total book value of relevant asset groups or combinations of asset groups except goodwill.

#### 4.15.4 Impairment of goodwill

The goodwill formed by the merger of the company shall be tested for impairment at least annually at the end of each year. For the book value of goodwill formed by the merger, it shall be allocated to the relevant asset group in a reasonable way from the date of purchase; if it is difficult to allocate to the relevant asset group, it shall be allocated to the relevant asset group combination. If there are signs of impairment in the asset group or group of asset groups containing goodwill on which an impairment test is conducted, the company should perform impairment test on asset



groups or asset group combinations that do not include goodwill at first, calculate the recoverable amount and compare with the relevant book value to confirm the corresponding impairment loss. Then conduct impairment test on the asset group or group of asset groups containing the goodwill and compare the book value of the relevant asset group or group of asset groups (including the book value portion of the assessed goodwill) with the recoverable amount, if the recoverable amount of the asset group combination is lower than its book value, the impairment loss of the goodwill is recognized.

4.15.5 Once the asset impairment loss is confirmed, it will not be reversed in the subsequent accounting period and will be transferred out when the related assets are disposed of.

#### **4.16 Recognition and Measurement of Borrowing Costs**

##### **4.16.1 Principles for recognition of capitalization of borrowing costs:**

The borrowing costs incurred which can be directly attributed to the assets purchasing or manufacturing that meet the capitalization conditions, should be capitalized and included in the cost of related assets; other borrowing costs occurred should be recognized as expenses according to the amount of its occurrence, and included in the current profit and loss. Assets eligible for capitalization refer to fixed assets, investment real estate, inventory, and other assets that require a considerable amount of time for acquisition, construction, or production to be ready for use or sale.

##### **4.16.2 Capitalization period of borrowing costs:**

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

- a. Asset expenditures have occurred;
- b. Borrowing costs have already occurred;
- c. the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started..

2) Suspension of capitalization:

If the acquisition and construction or production activities of assets eligible for capitalization are interrupted abnormally and this condition lasts for more than three months, the capitalization of borrowing costs should be suspended. The borrowing costs incurred during interruption are recognized as expenses and recorded into current profit or loss until the acquisition and construction or production activities of the assets restart.

3) Stopping capitalization: When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased.

4.16.3 Measurement of capitalized amount of borrowing costs:

Special borrowings borrowed for acquiring and constructing or producing assets eligible for capitalization shall be determined at interest expense of special borrowing actually incurred in the current period less the interest income of the borrowings unused and deposited in bank or return on temporary investment.

As for general borrowings used for acquiring and constructing or producing assets eligible for capitalization, the to-be-capitalized interest amount of general borrowings shall 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. Within the capitalization period, the interest amount capitalized per accounting period does not exceed actual interest amount generated by relevant borrowings in the current period.

#### **4.17 Confirmation and Measurement of Share Payment**

Share-based payments are divided into equity-settled share-based payments and cash-settled share-based payments.

4.17.1 Equity-settled share-based payments

An equity-settled share-based payment in exchange for the employee's services is

measured at the fair value at the date when the equity instruments are granted to the employee. Such fair value during the vesting period of service or before the prescribed exercisable conditions are achieved is recognized as relevant cost or expense, and increase capital reserve simultaneously.

The fair value during the vesting period of service or before the prescribed exercisable conditions are achieved is recognized as relevant cost or expense on a straight-line during the vesting period based on the best estimated quantity of exercisable equity instruments, accordingly increase capital reserve.

The company will no longer adjust the confirmed costs and the total owners' equity after the vesting date. On the exercise date, according to the status of employees' exercise, the share capital and share premium are recognized, and the capital reserve recognized during the waiting period is carried forward.

#### 4.17.2 Cash-settled share payment

A cash-settled share-based payment is measured at the fair value at the date at which the Company incurred liabilities that are determined based on the price of the shares or other equity instruments. If it is immediately vested, the fair value of the liabilities at the date of grant is recognized as relevant cost or expense, and corresponding liabilities. If it is exercisable only when the vesting period of service is expired or the prescribed conditions are achieve, the fair value of liabilities undertaken by the Company are re-measured at each balance sheet date based on the best estimate of exercisable situation. The company will no longer confirm the cost after the feasible date. The changes at fair value of the liabilities are recognized in the profit or loss for the year.

#### 4.18 Hedge accounting

The hedging refers to the fact that, the company designates one or more hedging instruments whose changes of fair value or cash flows to offset all or part of the fair value or cash flow changes of the hedged item, in order to avoid foreign exchange

risks, interest rate risks, commodity price risks, stock price risks, credit risks, etc. Hedging is divided into fair value hedging, cash flow hedging and foreign investment net investment hedging.

The hedging instrument refers to the derivative instruments designated by the company for hedging whose fair value or cash flow changes are expected to offset the changes in the fair value or cash flow of the hedged item, and non-derivative financial assets or non-derivative financial liabilities specified in foreign exchange risk hedging.

A hedged item refers to an item that exposes the company to changes in fair value or cash flow and is designated as a hedged object.

4.18.1 The hedging accounting method is applied to deal with Hedging when the following conditions are met simultaneously:

1) At the beginning of the hedging, there was a formal designation of the hedging relationship and a formal written document was prepared on the hedging relationship, risk management objectives and hedging strategies.

2) The expectation of hedging is highly effective and in line with the risk management strategy initially determined by the company for the hedging relationship.

3) For the cash flow hedging of the expected transaction, the expected transaction should be likely to occur, and the company must be exposed to the risk of cash flow changes that will ultimately affect the profit and loss.

4) The effectiveness of hedging can be reliably measured.

5) This hedge is highly effective in the accounting period in which the hedging relationship is specified.

4.18.2 Hedging that satisfies the following conditions at the same time is deemed to be highly effective:

1) At the beginning of the hedging period and thereafter, the hedging is expected to be highly effective in offsetting the changes in the fair value or cash flow arising from the hedged risk during the specified period of the hedging;

2) The actual offset result of this hedge is within the range of 80% to 125%.

#### **4.19 Employee compensation**

##### **4.19.1 Short-term compensation accounting**

Short-term benefit includes salary, bonus, allowance, welfare, social insurance, housing funds, about union expense, staff training expense, during the period in which the service rendered by the employees, the actually incurred short term employee benefits shall be recognized as liability and shall be recognized in P&L or related cost of asset. Non-monetary benefits are measured at fair value.

##### **4.19.2 Accounting treatment methods for post-employment welfare**

Post-employment benefits are employee's benefit payable as a result of either an entity's decision to terminate an employee's employment before the contract due date or an employee's decision to accept voluntary redundancy in exchange for those benefits. An entity shall recognize the termination benefits as a liability and an expense at the earlier date when the entity cannot unilateral withdraw the termination benefits due to employment termination plan or due to redundancy suggestion, or when the entity can recognize the restructuring cost or expense arising from paying termination benefits.

Post-employment benefits mainly include defined contribution plans, which mainly consist of basic pension insurance and unemployment insurance, and the corresponding amount payable is recorded in the relevant asset cost or current profit or loss when it occurs.

##### **4.19.3 Accounting treatment method for dismissal welfare**

The employee's internal retirement plan is treated on the same principle as the above-mentioned termination benefit. The salaries of the internally retired staff and the social insurance premiums to be paid during the period from the employee's suspension of service until the normal retirement date shall be recorded in the current profit or loss (demission welfare) when they meet the conditions for confirming the estimated liabilities.

#### 4.19.4 Accounting treatment of other long-term employee remuneration payable

If other long-term employee's benefit is qualified as defined contribution plan, contribution made shall be recognized as liabilities accordingly for the period in which the service are rendered by the employee and recognized in the profit or loss for the current period or relevant cost of assets. In addition, accounting treatment is carried out according to the defined benefit plans.

### 4.20 Estimated liabilities

If the Company has obligations related to contingent events which meet the following conditions, provision should be recognized: It is the Company's present obligation; carrying out the obligation will probably cause the Company's economic benefit outflow; the obligation can be reliably measured.

Provision is originally measured on the best estimate of outflow for paying off the present obligations, and to consider the risk, uncertainty, time value of monetary relevant to contingent items. At each balance sheet date, the book value of provision is reviewed. If there is conclusive evidence that the book value can not reflect the current best estimate, the book value should be adjusted according to the best estimate.

### 4.21 Revenue Recognition Principle

#### 4.21.1 Principle of recognition of revenue from selling goods

Revenue from sales of goods is confirmed when the following conditions are satisfied simultaneously: Company has transferred all the significant risks and rewards of the ownership of the goods to the buyers, and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. The relative sale proceeds have been reliably measured, respective economic benefit probably inflow to the company, and the incurred or incurring cost can be reliably measured.



#### 4.21.2 Principle of recognition of revenue from providing labor services

Where the results of the labor services provided on the balance sheet date can be estimated reliably, the income from the provision of labor services is recognized with the completion percentage method. The Company ascertains the schedule of completion according to the measurement of the work completed.

If an enterprise cannot, on the date of the balance sheet, measure the result of a transaction concerning the providing of labor services in a reliable way, it shall be conducted in accordance with the following circumstances, respectively: ① If the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount; ② If the cost of labor services incurred is not expected to compensate, the cost incurred should be included in the current profits and losses, and no revenue from the providing of labor services may be recognized.

#### 4.21.3 Principle of recognition of revenue from alienating the right to use assets

Revenue from alienating of right to use assets if the relevant economic benefits are likely to flow into the enterprise and the amount can be measured in a reliable way may be recognized based on the following circumstances, respectively:

(1) The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the enterprise's cash is used by others and the actual interest rate;

(2) The amount of royalty revenue should be measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

### 4.22 Government grants

Government grants refer to the free acquisition of monetary assets or non-monetary assets from the government.

#### 4.22.1 Types of government grants

Government grants mainly include two types: assets-related government grants and income-related government grants.

Assets-related government grants are the government fund obtained by the company for the purpose of long-term assets purchase and construction or establishment in the other forms. Income-related grants are the grant given by the government apart from the assets-related grants.

#### 4.22.2 Accounting treatment of government grants

##### 1) Initial measurement of government grants

Where a government grant is in the form of a transfer of monetary asset, it is measured at the amount received. Where a government grant is in the form of a transfer of non-monetary asset, it is measured at fair value.

##### 2) Subsequent measurement and termination of government grants

Assets-related government grants are recognized as deferred income or directly offsetting the book value of the asset, and Assets-related government grants recognized as deferred income shall be evenly amortized to profit or loss over the useful life of the related asset. Any assets are sold, transferred, disposed of or impaired earlier than their useful life expired date, the remaining balance of deferred income which hasn't been allocated shall be carried forward to the income statement when the assets are disposed of.

Income-related government grants that is a compensation for related expenses or losses to be incurred in subsequent periods are recognized as deferred income and credited to the relevant period when the related expense are incurred. Government grants relating to compensation for related expenses or losses already incurred are charged directly to the profit or loss for the period or offset the asset cost.

For government grants that include both assets-related and income-related parts the accounting treatment should be distinguished separately; if it is difficult to distinguish, they should be classified as income-related government grants.

Government grants related to daily business, shall be recognized as other income in accordance with business nature, otherwise, shall be recognized as non-operating expenses.

If any government grant already recognized needs to be returned to the government, the accounting shall be differed according to the following circumstances: 1) originally recognized as offsetting of related assets' book value, assets book value shall be adjusted; 2) if any deferred income, book value of deferred income shall be offset, excessive portion shall be accounted into income statement; 3) Other situation, it shall be accounted into income statement directly.

#### **4.23 Accounting treatment of income taxes**

4.23.1 The income tax is accounted for using balance sheet approach.

The deferred income tax assets or the deferred income tax liabilities should be recognized according to the temporary difference. The temporary difference shall refer to the difference between the carrying amount of an asset or liability and its tax base. As for an item that has not been recognized as an asset or liability, if its tax base can be determined in light of the tax law, the difference between the tax base and its carrying amount shall also be a temporary difference.

4.23.2 Recognition of deferred income tax assets

An enterprise shall recognize the deferred income tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is featured by the following, shall not be recognized: This transaction is not business combination; and at the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

Where the deductible temporary difference related to the investments of the

subsidiary companies, associated enterprises and joint enterprises can meet the following requirements simultaneously, the enterprise shall recognize the corresponding deferred income tax assets: The temporary differences are likely to be reversed in the expected future; and it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

#### 4.23.3 Recognition of deferred income tax liabilities

Except for the deferred income tax liabilities arising from the following transactions, an enterprise shall recognize the deferred income tax liabilities arising from all taxable temporary differences:

- 1) The initial recognition of goodwill;
- 2) The initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following: (a) The transaction is not business combination; (b) At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.
- 3) The taxable temporary differences related to the investments of subsidiary companies, associated enterprises and joint enterprises can simultaneously meet the following conditions: (a) The investing enterprise can control the time of the reverse of temporary differences; and (b) The temporary differences are unlikely to be reversed in the expected future.

4.23.4 The carrying amount of deferred income tax assets shall be reexamined on the balance sheet day. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred income tax assets, the carrying amount of the deferred income tax assets shall be written down. When it is possible to obtain sufficient taxable income, the amount of write-down should be reversed.

### 4.24 Business Combination

#### 4.24.1 Corporate merger under the same control

For a business combination under the same control, the assets and liabilities of the

merged party acquired in the merger are measured at the original book value of the merged party on the merger date except for adjustments made due to different accounting policies. The difference between the book value of the merger consideration (or the total par value of the shares issued) and the book value of the net assets obtained shall be adjusted to the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted.

The direct related expenses incurred for the business combination shall be included in the current profits and losses when occurred.

#### 4.24.2 Business combinations not under the same control

For a business combination not under common control, the cost of a merger is the fair value of the assets paid, the liabilities incurred or assumed, and the equity securities issued during the acquisition of the company's control over the acquire. On the acquisition date, the acquirer's assets, liabilities and contingent liabilities acquired by the company are recognized at fair value. If the purchaser's merger cost is higher than the fair value of the identifiable net assets of the acquire obtained in the merger, the difference shall be recognized as goodwill, which is measured at cost less accumulated impairment allowance; and if the merger cost is less than the fair value of the identifiable net assets, the difference can be identified is included in the current profit or loss.

The direct expenses related to the merger, including audit fees, evaluation fees and legal service fees paid for the business combination, shall be recorded into the current profit or loss when incurred. The bonds issued for the business combination or the handling fees and commissions for the payment of other debts shall be included in the initial measurement amount of the bonds and other debts issued. The fees, commissions, and other expenses incurred in the issuance of equity securities in a business combination are deducted from the equity securities premium income. If the premium income is insufficient to offset, the retained earnings shall be written off. The merger date is the date on which the merging party actually obtained control of the

merged party.

#### **4.25 Preparation method of consolidated financial statements**

##### **4.25.1 Confirmation principle of consolidated scope**

The scope of consolidated financial statements shall be confirmed base on the control. Invested enterprises of which the company has more than half voting rights shall be determined within the consolidated scope. Invested enterprises of which the company has less than half of voting rights, but are substantially controlled by the company shall be determined within the consolidated scope.

##### **4.25.2 Preparation basis and method of consolidated financial statements**

The scope of the consolidated financial statements is on the base of control. The parent company incorporates all its subsidiaries (including the separate entities controlled by the parent company) into the consolidated scope of the consolidated financial statements. If the parent company is an investment entity, the parent company will only include the subsidiary (if any) that provides related services for its investment activities into the scope of consolidation and prepare the consolidated financial statements; other subsidiaries will not be consolidated, and the investments should be measured at fair value and their changes should be recorded in the current profit or loss.

The consolidated financial statements shall be prepared by parent company on the base of the individual financial statements of the parent and subsidiaries and other information of parent company and the subsidiaries included in the scope of consolidation. The internal equity investment and owners' equity of subsidiaries, internal investment income and profit distribution of subsidiaries, internal transactions, and internal credits and debts should be offset.

In the period of report, for the added subsidiary companies under the same control preparing the balance sheet, the Company shall include the income, expenses, and profits of the subsidiary into the consolidated income statement from the beginning of

the period to the end of the report period and included the cash flow in the consolidated cash flow statement, and incorporate the cash flow into the consolidated cash flow statement. When compiling the comparative accounting statements, the subsidiary company is also included in the consolidated financial statements. For the added subsidiary company not under the same control preparing the balance sheet, shall include the income, expenses, and profits of the subsidiary into the consolidated income statement from the acquisition date to the end of the report period and included the cash flow in the consolidated cash flow statement.

When the Company prepares the consolidated financial statements, if the accounting policies and accounting periods adopted by the subsidiaries are inconsistent with the company, the company will adjust or restate the financial statements of the subsidiaries based on the accounting policies and accounting periods adopted by the Company.

#### **4.26 Lease**

If the lease terms substantially transfer all risks and rewards related to the ownership of the leased asset to the lessee, the lease is a finance lease and the others are operating leases.

##### **4.26.1 The company as a lessor**

On the beginning date of the lease term, a lessor shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income. The unrealized financing income shall be allocated to each period during the lease term by adopting the effective interest rate method.

The rents from operating leases shall be recorded in profits and losses of the



current period by using the straight-line method over each period of the lease term. The initial direct costs incurred shall be recognized as the profits and losses of the current period.

#### 4.26.2 The company as a lessee

On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs are directly attributable to the leased item.

The rents from operating leases shall be recorded in profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred shall be recognized as the profits and losses of the current period.

### Note 5 Taxes

#### 5.1 Major taxes and rates

Tax categories	Tax basis	Tax rate
VAT	The value added during the sale of goods or the provision of taxable services	3%、5%、6%、9%、10%、11%、13%、16%
Corporate income tax	Taxable income	15%、20%、25%
Business tax	Taxable income	5%
Urban maintenance and construction tax	Tax turnover payable	Paid by company location policy
Additional education fee	Tax turnover payable	Paid by company location policy
Land appreciation tax	Real Estate Sales Revenue - Deductions	Progressive tax rate by 30%-60%

## 5.2 Other matters needing explanation

In addition to the above-mentioned taxes, others are calculated and paid according to the relevant national and local regulations.

### **Note 6 Other significant changes on accounting policies and accounting estimates, correction of the accounting errors from previous term and other adjustments**

#### **6.1 Changes in accounting policies**

(1) In 2017, the Ministry of Finance issued the revised Accounting Standards for Business Enterprises No.22 - Recognition and Measurement of financial instruments, Accounting Standards for Business Enterprises No.23 - Transfer of financial assets, Accounting Standards for Business Enterprises No.24 - Hedge accounting, Accounting Standards for Business Enterprises No.37 - presentation of financial instruments, the above four standards are collectively referred to as the "new financial instruments standards".

The new financial instruments standard divides financial assets into three categories: (1) Financial assets measured at amortized cost; (2) Financial asset measured at fair value with its changes included in other comprehensive income; (3) Financial assets measured at fair value through current profit and loss. Under the new financial instrument standard, the classification of financial assets is determined based on the business model of the company's financial assets under management and the contractual cash flow characteristics of the assets. The new financial instruments standard cancels the three categories of held to maturity investment, loans, receivables and available for sale financial assets stipulated in the original financial instruments standard. The new financial instrument standard replaces the "incurred loss" model in the original financial instrument standard with the "expected credit loss" model.

According to the provisions of the new financial instruments standard, the company adjusts the classification of financial instruments on the implementation date

of the new financial instruments standard (i.e. January 1, 2019).

(2) In 2019, the board of directors of the company decided to change the subsequent measurement mode of the investment real estate from the cost measurement mode to the fair value measurement mode. This accounting policy change adopts the retroactive adjustment method.

The impact of changes in accounting policies is as follows:

Consolidated report items	December 31, 2018	Impact of the implementation of the new financial instruments standards	The influence of the change of subsequent measurement mode of investment properties	January 1, 2019
Financial assets held for trading		133,042,000.00		133,042,000.00
Other current assets	2,259,044,513.40	-125,423,468.57		2,133,621,044.83
Financial assets measured at fair value through current profit and loss	3,821,931,831.00	-3,042,000.00		3,818,889,831.00
Accounts receivable	841,226,098.35	6,117,575.15		847,343,673.50
Other receivables	6,618,165,649.86	-4,576,531.43		6,613,589,118.43
Including : Interest receivable	100,470,550.74	-4,576,531.43		95,894,019.31
Debt investments		10,000,000.00		10,000,000.00
Available-for-sale financial assets	1,427,571,787.21	-90,000,000.00		1,337,571,787.21
Other equity investments		90,000,000.00		90,000,000.00
Held-to-maturity investments	229,842,498.63	-10,000,000.00		219,842,498.63
Investment properties	3,826,613,221.42		2,337,381,510.25	6,163,994,731.67
Fixed assets	8,972,300,530.47		-2,379,443.78	8,969,921,086.69
Intangible assets	2,505,903,989.63		-4,464,513.39	2,501,439,476.24
Deferred income tax assets	432,374,996.04	-755,929.45		431,619,066.59
Short-term loans	11,273,188,556.98	6,635,329.66		11,279,823,886.64
Other payables	5,058,985,438.00	-7,556,502.88		5,051,428,935.12
Including : Interest payable	294,592,140.18	-7,556,502.88		287,035,637.30
Other non-current liabilities maturing within one year	12,387,675,535.99	921,173.22		12,388,596,709.21
Deferred income tax liabilities	92,031,101.95		487,651,637.07	579,682,739.02
Other comprehensive income	196,232,742.81		64,463,054.33	260,695,797.14
Surplus reserve	512,628,906.80		103,143,761.79	615,772,668.59
Undistributed profit	1,904,104,725.38	2,205,078.10	635,440,102.79	2,541,749,906.27
Minority shareholder's equity	5,029,096,100.97	3,156,567.60	1,039,838,997.10	6,072,091,665.67

(3) On April 30, 2019, the Ministry of Finance released Notice on Revising and Printing the Format of Financial Statements of General Enterprises in 2019 (Financial

Accounting [2019] No: 6). The Company prepared the financial statements of 2019 in accordance with the format of financial statements stipulated by Financial Accounting [2019] No: 6. The impact on the presentation of financial statements in 2018 is as follows:

Consolidated balance sheet items	Balance at December 31, 2018	Balance at January 1, 2019
Notes and accounts receivables	944,479,668.46	
Notes receivable		103,253,570.11
Accounts receivable		841,226,098.35
Notes and accounts payables	13,267,424,718.38	
Notes payable		4,521,848,494.51
Accounts payable		8,745,576,223.87

## 6.2 Changes in accounting estimates

There is no accounting policy change in this accounting period.

## 6.3 Correction of previous accounting errors

There is no significant change in accounting estimate during the financial year.

## Note 7 Business Combinations and Consolidated Financial Statement

The company will include subsidiaries with actual control rights and special purpose entities in the scope of the consolidated financial statements.

The Company's consolidated financial statements are prepared in accordance with the requirements of the "Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements" and related regulations. When the Company prepares consolidated statements, all significant internal transactions and current account within the scope of consolidation are eliminated. For the shares in the owner's equity of subsidiary company not belong to parent enterprise, shall be listed in the item of "minority shareholder's equity" under the owner's equity in the consolidated balance sheet.

When preparing the consolidated financial statements, if the accounting policies

or accounting periods adopted by the subsidiaries and the company are inconsistent, necessary adjustments shall be made to the subsidiaries' financial statements in accordance with the company's accounting policies or accounting periods.

During the reporting period, the subsidiaries of the Company, Inzone Group Co., Ltd. and Lushang Health Industry Development Co.,Ltd., adopted the new financial instrument standards to recognize and measure the financial instruments. When preparing the consolidated financial statements, they did not adjust according to the accounting policies of the company.

For subsidiaries acquired from a business combination not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date. For the subsidiary obtained from combination under common control, it shall adjust the beginning balance of the consolidated financial statement.

## **7.1 Subsidiary situation**

### **(1) Second level subsidiaries obtained through establishment or investment**

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Inzone Group Co., Ltd.	Directly held	Jinan	Commercial retail	52,006.66	Commercial retail	30,656.85		24.49	9.70	34.19	Y
Lushang Health Industry Development Co., Ltd.	Directly held	Zibo	Real estate development	100,096.80	Real estate development	133,018.89		53.02	1.72	54.74	Y
Shandong Silver Plaza Co., Ltd.	Directly held	Jinan	Commercial retail	40,000.00	Commercial Retail, Site Rental, General Freight, Warehousing and Distribution Services	27,854.78		40.97		40.97	Y
Lushang Group Co., Ltd.	Directly held	Jinan	Investment, real estate development	42,300.00	Foreign investment, real estate development, etc.	22,279.58		50.33		50.33	Y
Lushang Inzone Automobile Co., Ltd.	Directly held	Jinan	car sales	4,000.00	Car and accessories sales, car rental, cleaning, repair	1,350.00		33.75		33.75	Y
Lushang Products Group Co., Ltd.	Directly held	Jinan	Mining investment	10,000.00	Mining investment, site leasing, commodity import and export business	10,000.00		100.00		100.00	Y
Shandong Lushang Logistics Technology Co., Ltd.	Directly held	Jinan	Logistics and warehousing	2,100.00	Logistics and warehousing	2,151.07		100.00		100.00	Y
Shandong Etone Development Group Co., Ltd.	Directly held	Jinan	Financial Services	86,256.00	Development, production, and issuance of non-financial IC cards.	59,500.00		74.14		74.14	Y
Shandong Commercial Group Finance Co., Ltd.	Directly held	Jinan	Financial Services	200,000.00	Financial sector	215,166.55		100.00		100.00	Y
Shandong Lushang Institute	Directly held	Jinan	education	1,000.00	Education and training	1,000.00		100.00		100.00	Y
Shandong Quancheng Hotel Co. Ltd	Directly held	Jinan	Accommodation and Catering Industry	500.00	Catering services, conference and exhibition services, economic information consulting services, domestic advertising business rental housing	500.00		100.00		100.00	Y
Shandong Fuyuan Investment Co., Ltd.	Directly held	Jinan	investment	20,000.00	Foreign investment and management, corporate management consulting services	5,490.94		34.00		34.00	Y
Shandong Yongxing Group Co., Ltd	Directly held	Jinan	business	13,584.91	Mining investment capital management, sales of construction materials, mining equipment, hardware and electricity, and general merchandise	9,101.89		67.00		67.00	Y

## SHANDONG COMMERCIAL GROUP CO., LTD.

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
National Engineering Research Center for Agricultural Products Logistics	Directly held	Jinan	business	5,000.00	Chain logistics equipment (excluding automobiles) design, sales and installation; cold chain logistics engineering consulting; design, construction, logistics information engineering consulting, planning, design and construction, etc.	5,000.00		100.00		100.00	Y
Jinan Fuyuan Micro-credit Co., Ltd.	Directly held	Jinan	Financial industry	50,000.00	Handle various micro-credits in Shandong; carry out consultations on development, management and finance of small businesses	50,000.00		100.00		100.00	Y
Shandong Province Yuemei Travel Automobile Company	Directly held	Jinan	business	2,495.77	Chartered passenger and car rental	6,981.36		100.00		100.00	Y
Qilu Medical University	Directly held	Jinan	education	9,929.74	The education of Undergraduate specialist, teaching services.	9,929.74		100.00		100.00	Y
Shandong Shunbo Investment Management Co., Ltd.	Directly held	Jinan	Investment Management	3,000.00	Investment Management	1,800.00		60.00	40.00	100.00	Y
Shandong Fuyuan Investment holding Co., Ltd.	Directly held	Jinan	Investment	20,000.00	Investment and consultations	1,020.00		34.00		34.00	Y
Shandong Cultural Tourism Development Group	Directly held	Jinan	Culture and Tourism	50,000.00	Cultural and tourism industry development, operation, management and consulting services; foreign investment with own funds; educational consulting, educational software technology development; enterprise management consulting; cultural art management; tourism souvenir design and sales; new media development and management; advertising business; film and television production.	22,000.00		100.00		100.00	Y



SHANDONG COMMERCIAL GROUP CO., LTD.

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
					etiquette celebration planning services; conference and Exhibition Services; catering; accommodation; cableway services; Scenic spot passenger service; parking service; food, dairy products, daily necessities, clothing, shoes and hats, textiles, office supplies, sporting goods, furniture, household appliances, computer and auxiliary equipment, books and periodicals, art and crafts, gold and silver jewelry, flower sales; Landscaping; house leasing; real estate development and operation, real estate information consulting, real estate intermediary services; house decoration; Property services. (for projects subject to approval according to law, business activities can be carried out only after approval of relevant departments).						
Shandong Hongtai Fuyuan Capital Management Co., Ltd	Directly held	Jinan	Investment management	1,000.00	Foreign investment with its own funds; enterprise management consulting service; project investment management; capital management; enterprise trusteeship; house leasing and property management. (for projects subject to approval according to law, business activities can be carried out only	153.00		51.00		51.00	Y

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
					after approval of relevant departments).						
Shandong Lushang Group Industrial Investment Co., Ltd	Directly held	Jinan	Investment management	5,000.00	Foreign investment with own funds; business management and consultation; Market opening; market management; enterprise management consulting; property management and consulting; real estate development; computer technology development; technology transfer and consulting services; education consulting; overseas study agency; labor export; planning and creative services; domestic advertising business; conference and exhibition services; parking lot services; venue rental; cleaning services; catering services; cultural and sporting goods Wholesale and retail of equipment, knitwear, clothing, daily necessities, cosmetics, aquatic products, machinery and equipment, hardware and electrical equipment, auto parts, drugs, medical equipment; retail of books, audio-visual products, arts and crafts (excluding cultural relics); processing and sales of food; retail and maintenance of household appliances and furniture; processing and retail of jewelry and gold; photography	700.00		100.00		100.00	Y

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
					clothing Business, graphic design, production; trade agent; warehousing service (excluding dangerous goods); import and export business. (for projects subject to approval according to law, business activities can be carried out only after approval of relevant departments).						

## (2) Second level subsidiaries obtained through business combination under the same control

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Shandong Yinzuo-Yingcai Kindergarten	Directly held	Jinan	Education	400.00	Early childhood education	342.68		77.00		77.00	Y
Shandong Inzone Green Home Furnishing Co., Ltd.	Directly held	Jinan	Business	1,057.00	Business, retail, wholesale	491.51		46.50		46.50	Y
Dongying Inzone Real Estate Development Co., Ltd.	Directly held	Dongying	Real estate development	1,000.00	Real estate development, selling; real estate agents	6,402.82		100.00		100.00	Y
Tai'an Inzone Real Estate Development Co., Ltd.	Directly held	Tai'an	Real estate development	2,000.00	Real estate development, construction operation, house rental	9,071.17		97.00		97.00	Y
Jining Lushang Property Co., Ltd.	Directly held	Jining	Real estate development	2,000.00	Real estate development, real estate agents; real estate marketing planning; house rental	8,134.84		100.00		100.00	Y

## (3) Second level subsidiaries obtained through transfer

Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Shandong Animal Husbandry and Industrial and Commerce General Corp.	Transfer	Jining	Business	3,175.00	Grain, feed and additives, livestock, counter trade and transit trade, house rental			100.00		100.00	Y
<b>(4) Institutions</b>											
Subsidiary Company	Type	Registered place	Business nature	Registered capital (RMB10,000)	Business Scope	Actual capital contribution at the end of the period (RMB10,000)	Balance of other items that actually constitute a net investment	Direct proportion of shares (%)	Indirect proportion of shares (%)	Proportion of voting rights (%)	Consolidated statements
Shandong Academy of Biomedical Sciences	Directly Controlled	Jinan	Drug Discovery	Not applicable	Drug Research and Development	700.00		100.00		100.00	Y
Education Training Center for Employees of Shandong Commercial Group Co., Ltd.	Directly Controlled	Weihai	Education	Not applicable	Taking on the academic exchange activities of the province's educational system			100.00		100.00	Y
Shandong Institute of Commerce and Technology	Directly Controlled	Jinan	Education	Not applicable	Training higher vocational and technical personnel			100.00		100.00	Y
Qingdao Vocational and Technical College of Hotel Management	Directly Controlled	Qingdao	Education	Not applicable	Cultivating Technical Research Talents for Higher Education			100.00		100.00	Y
Shandong City Service Technician College	Directly Controlled	Yantai	Education	Not applicable	Training cook, hotel attendants, tour guide intermediate specialist			100.00		100.00	Y
Shandong Pharmaceutical Industry Designing Institute	Directly Controlled	Jinan	Medical Engineering Design	Not applicable	Design of Basic Construction Projects for Pharmaceutical Industry			100.00		100.00	Y
Kindergarten of Shandong Commercial Group Co., Ltd.	Directly Controlled	Jinan	Education	Not applicable	Preschool education	30.00		100.00		100.00	Y

## 7.2 Explanation of changes in scope of consolidation

### (1) Second level subsidiaries and reasons which the Group hold less than 50% of equity interest but are included in the consolidation scope on 31 December 2018

Name	Holdings Proportion (%)	Reason of including in consolidation
Inzone Group Co., Ltd.	34.19%	See note 1
Shandong Silver Plaza Co., Ltd.	40.97%	See note 2
Lushang Inzone Automobile Co., Ltd.	33.75%	See note 3
Shandong Fuyuan Investment Co., Ltd.	34.00%	See note 4
Shandong Fuyuan Investment holding Co., Ltd.	34.00%	See note 5

Note 1: The Company holds 34.19% equity of Inzone Group Co., Ltd..According to the articles of association, the Company determines its production and operation. Therefore, the Company has actual control over the entity and has included it in the consolidation scope.

Note 2: The Company holds 40.97% of the equity of Shandong Silver Plaza Co., Ltd. According to the Company's articles of association, the Company determines the its production and operation, so the Company has actual control over the entity and has included it in the scope.

Note 3: The company holds 33.75% of the equity of Lushang Inzone Automobile Co., Ltd. According to the Company's articles of association, the Company determines the its production and operation, so the Company has actual control over the entity and has included it in the scope.

Note 4: The company holds 34.00% equity of Shandong Fuyuan Investment Co., Ltd. According to the Company's articles of association, the Company determines the its production and operation, so the Company has actual control over the entity and has included it in the scope.

Note 5: The company holds 34.00% equity of Shandong Fuyuan Investment holding Co., Ltd. According to the Company's articles of association, the Company determines the its production and operation, so the Company has actual control over the entity and has included it in the scope.

### (2) Companies and reasons which the Group hold more than 50% of equity interest but are not included in the consolidation scope on 31 December 2018.

None.

### 7.3 Companies newly included in the scope of consolidation in the current period and those no longer included in.

#### (1) Second level subsidiaries Companies newly included, and operating entities with control right formed through entrusted operation or leasing in the current period

Name	Net assets at the end of period	Net profit in current period
Shandong Cultural Tourism Development Group Co., Ltd	219,772,434.52	-13,750,865.48
Shandong Hongtai Fuyuan Capital Management Co., Ltd	-962,072.25	-3,962,072.25
Shandong Lushang Group Industrial Investment Co., Ltd	7,897,005.71	897,005.71

#### (2) Second level subsidiaries Companies no longer included in and operating entities with control right formed through entrusted operation or leasing in the current period

Name	Holding proportion (%)	Investment amount	Reason not included in consolidation
Shandong Lushang rural revitalization Co. Ltd	100.00	10,000.00	transfer to third level subsidiary company

### Note 8 Notes to the consolidated financial statements

#### 8.1 Monetary assets

Items	31-Dec-19	31-Dec-18
Cash in hand	33,372,126.40	34,787,860.11
Cash in bank	6,511,200,148.93	5,839,413,822.21
Other monetary funds	4,130,756,901.09	3,927,599,941.73
<b>Total</b>	<b><u>10,675,329,176.42</u></b>	<b><u>9,801,801,624.05</u></b>

Note 1: The limited monetary funds are RMB 2,757,805,144.73 on Dec.31, 2019.

The details are as follows: Various types of margin deposits that could not be realized in the short-term are RMB794,776,174.59; The compensation and special subsidies for the demolition of households under supervision are RMB705,234.49; the pre-sale supervision funds and loan guarantee funds were RMB 1,419,977,658.66; the special construction funds were RMB161,274,708.92; deposit reserves in bank of china were RMB 340,365,323.75 ; a special fund invested by the CDB were RMB18,955.69 ; and the mortgage, frozen mortgage, and other funds that changed the existing restrictions amounted to RMB 3,598,678.28;. Maintenance deposit are RMB37,088,410.35.

#### 8.2 Financial assets measured at fair value through current profit and loss

Items	31-Dec-19	31-Dec-18
Financial assets held for trading	10,548,522.28	70,907,995.15

Financial assets designated at fair value and through profit or loss	3,964,510,126.14	3,747,981,835.85
<b>Total</b>	<u>3,975,058,648.42</u>	<u>3,818,889,831.00</u>

### 8.3 Notes receivable

#### (1) General category

Category	31-Dec-19			31-Dec-18		
	<u>Amount</u>	<u>Bad debt</u>	<u>Book value</u>	<u>Amount</u>	<u>Bad debt</u>	<u>Book value</u>
Bank acceptance bills	58,703,942.69		58,703,942.69	61,297,385.58		61,297,385.58
Commercial acceptance bills	204,669,781.49		204,669,781.49	41,956,184.53		41,956,184.53
<b>Total</b>	<u>263,373,724.18</u>		<u>263,373,724.18</u>	<u>103,253,570.11</u>		<u>103,253,570.11</u>

#### (2) Notes receivable that had been pledged on 31 December 2019

Items	<u>Amount</u>
Bank acceptance bills	
Commercial acceptance bills	103,000,000.00
<b>Total</b>	<u>103,000,000.00</u>

### 8.4 Accounts receivable

Category	31-Dec-19		31-Dec-18	
	<u>Amount</u>	<u>Bad debt</u>	<u>Amount</u>	<u>Bad debt</u>
Individually significant and subject to separate provision	12,024,781.93	1,202,478.19	12,024,781.93	1,202,478.19
Items as a credit risk collective group	928,349,974.79	96,005,218.32	899,435,390.49	72,707,820.73
Individually insignificant but provision for bad debts individually	6,616,446.94		9,850,300.00	56,500.00
<b>Total</b>	<u>946,991,203.66</u>	<u>97,207,696.51</u>	<u>921,310,472.42</u>	<u>73,966,798.92</u>

#### (1) Accounts receivable that are individually significant and subject to separate provision

Debtor name	Amount	Bad debt	Aging	Provision rate(%)	Provision reason
Construction office in Commerce and trade district Licang district	12,024,781.93	1,202,478.19	4-5years	10.00%	The account receivable has been estimated recoverability according to business nature at the end



					of the year and needs to be subject to separate provision.
Total	12,024,781.93	1,202,478.19	—	—	—

## (2) Items as a credit risk collective group

Items provided for using an aging analysis as a collective group are as follows:

Items	31-Dec-19		31-Dec-18	
	Amount	Bad debt	Amount	Bad debt
Within one year(including one year)	325,468,838.25	14,196,656.25	306,447,933.52	14,862,072.86
1-2 year(including two years)	29,704,639.68	7,667,983.83	10,826,236.19	3,126,657.06
2-3 year(including three years)	7,352,787.73	4,176,852.91	15,129,880.38	11,363,409.91
Over 3 years	44,886,068.10	42,380,106.08	44,440,009.40	38,129,767.59
Total	407,412,333.76	68,421,599.07	376,844,059.49	67,481,907.42

Items provided for using other analysis as a collective group are as follows:

Group name	31-Dec-19		31-Dec-18	
	Amount	Bad debt	Amount	Bad debt
Others	520,937,641.03	27,583,619.25	522,591,331.00	5,225,913.31
Total	520,937,641.03	27,583,619.25	522,591,331.00	5,225,913.31

(3) There are no receivables to shareholders who hold 5% or more voting shares at the balance sheet date.

(4) On December 31, 2019, the top five units of the amount of accounts receivable are as follows:

Customer Name	Relationship with the company	Closing balance
Harbin Senji Culture Communication Co., Ltd	Non-related parties	60,000,000.00
Jinyuan mining (Dongping) Co., Ltd	Non-related parties	45,000,000.00
Shandong new century Jiahua Film City Co., Ltd	Non-related parties	19,000,000.00
Qingdao Meicheng future information technology Co., Ltd	Non-related parties	15,582,179.89
Shandong Yingxiang Information Technology Co., Ltd	Non-related parties	14,085,617.75
Total		153,667,797.64

## 8.5 Advances to suppliers

### (1) General category

Items	31-Dec-19	31-Dec-18
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Within one year	2,157,583,430.91	2,342,824,029.37
1-2 year	1,096,932,829.90	1,150,411,046.95
2-3 year	446,143,428.44	1,296,067,015.34
Over 3 years	1,312,850,952.25	773,360,972.69
<b>Total</b>	<b>5,013,510,641.50</b>	<b>5,562,663,064.35</b>
Bad debts		56,325.10
<b>Net- Value</b>	<b><u>5,013,510,641.50</u></b>	<b><u>5,562,606,739.25</u></b>

(2) There are no accounts in advance to shareholders who hold 5% or more voting shares at the balance sheet date.

(3) The top five suppliers with the biggest balances:

Name	Relationship with the company	31-Dec-19	Percentage of total prepayments (%)
Linyi City Lanshan District Qiligou District Development and Construction Headquarters	Non-related parties	945,114,817.00	18.85
Qingdao Jieneng Steam Turbine Group Co., Ltd.	Non-related parties	381,300,000.00	7.61
Linyi Finance Bureau	Non-related parties	252,679,000.00	5.04
Binhai Road sub district office of Laishan District People's Government of Yantai City	Non-related parties	221,246,877.83	4.41
Jining public resources trading service center	Non-related parties	200,000,000.00	3.99
<b>Total</b>		<b><u>2,000,340,694.83</u></b>	<b><u>39.90</u></b>

(4) There are no advances to suppliers to related parties at the balance sheet date.

(5) There was no foreign currency balance in the balance of advances to suppliers at the balance sheet date.

## 8.6 Other receivables

Items	31-Dec-19	31-Dec-18
Interest receivable	13,572,310.68	95,894,019.31
Dividend receivable	4,238,600.03	
Other receivables	6,454,520,321.42	6,517,695,099.12
<b>Total</b>	<b><u>6,472,331,232.13</u></b>	<b><u>6,613,589,118.43</u></b>

### 1. Interest receivable

#### General category

Items	31-Dec-19	31-Dec-18
Fixed time deposit	6,609,582.03	91,875,642.20
Entrusted loan	5,421,895.31	4,018,377.11
Others	1,540,833.34	
<b>Total</b>	<b><u>13,572,310.68</u></b>	<b><u>95,894,019.31</u></b>

## 2. Dividend receivable

Name of Invested company	31-Dec-19	31-Dec-18
Guotai Junan Securities Co.,Ltd.	4,238,600.03	
<b>Total</b>	<u>4,238,600.03</u>	

## 3. Other receivables

Category	31-Dec-19			
	Book balance		Bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and subject to separate provision	4,476,205,316.19	61.46	44,740,521.66	1.00
Items as a credit risk collective group	2,735,684,124.26	37.56	780,063,557.63	28.51
Individually insignificant but provision for bad debts individually	70,947,828.16	0.98	3,512,867.90	4.95
<b>Total</b>	<u>7,282,837,268.61</u>	<u>100.00</u>	<u>828,316,947.19</u>	<u>34.46</u>

(Continued)

Category	31-Dec-18			
	Book balance		Bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and subject to separate provision	4,230,394,385.50	58.31	19,361,990.97	0.46
Items as a credit risk collective group	3,003,999,923.20	41.41	714,052,770.17	23.77
Individually insignificant but provision for bad debts individually	20,228,419.46	0.28	3,512,867.90	17.37
<b>Total</b>	<u>7,254,622,728.16</u>	<u>100.00</u>	<u>736,927,629.04</u>	<u>41.60</u>

## (1) Items as a credit risk collective group

Items provided for using an aging analysis as a collective group are as follows:

Items	31-Dec-19		31-Dec-18	
	Amount	Bad debt	Amount	Bad debt
Within one year(including one year)	1,368,750,366.43	317,762,214.38	1,709,491,041.33	251,001,696.30
1-2 year(including two years)	219,850,570.80	38,164,260.34	877,123,052.50	143,456,907.14
2-3 year(including three years)	191,039,245.60	55,406,663.50	74,273,319.08	20,231,303.84
Over 3 years	370,101,951.40	368,719,159.67	303,919,867.20	299,362,862.89
<b>Total</b>	<u>2,149,742,134.23</u>	<u>780,052,297.89</u>	<u>2,964,807,280.11</u>	<u>714,052,770.17</u>

Items provided for using other analysis as a collective group are as follows:

Group name	31-Dec-19	31-Dec-18
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	<u>Amount</u>	<u>Bad debt</u>	<u>Amount</u>	<u>Bad debt</u>
Others	585,941,990.03	11,259.74	39,192,643.09	
<b>Total</b>	<u>585,941,990.03</u>	<u>11,259.74</u>	<u>39,192,643.09</u>	

(2) There are no other receivables to shareholders who hold 5% or more voting shares at the balance sheet date.

(3) The top five customers with the biggest balances:

<b>Name</b>	<b>Nature</b>	<b>Relationship with the company</b>	<b>Amount</b>
Qingdao Hengdaxin investment management company	Intercourse funds	Non-related parties	45,496,000.00
Pingan International Financing Lease (Tianjin) Co., Ltd.	Cash deposit	Non-related parties	38,000,000.00
Harbin Housing Real Estate Guarantee Co., Ltd.	Cash deposit	Non-related parties	36,656,050.00
Blue New Area Management Committee of Jimo Provincial Economic Development Zone	Cash deposit	Non-related parties	27,145,984.27
Beijing Oriental Hanghua Investment Co., Ltd.	Intercourse funds	Non-related parties	24,218,774.37
<b>Total</b>			<u>171,516,808.64</u>

## 8.7 Inventories

Items	31-Dec-19			31-Dec-18		
	<u>Book balance</u>	<u>Provision for devalued inventory</u>	<u>Book value</u>	<u>Book balance</u>	<u>Provision for devalued inventory</u>	<u>Book value</u>
Raw Materials	112,414,997.04	1,870,295.40	110,544,701.64	105,749,635.40	1,663,338.33	104,086,297.07
Self-made semi-finished goods and goods in progress	27,122,453.72	853,083.74	26,269,369.98	36,741,222.06	853,083.74	35,888,138.32
Finished goods	2,113,856,316.28	5,157,309.57	2,108,699,006.71	1,765,447,441.03	1,162,743.27	1,764,284,697.76
Revolving materials (packaging materials, low-cost consumables and so on)	4,009,077.98		4,009,077.98	14,706,383.22		14,706,383.22
Development costs	33,783,104,908.61		33,783,104,908.61	27,912,885,547.98		27,912,885,547.98
Development products	11,111,798,114.19		11,111,798,114.19	9,436,139,254.91		9,436,139,254.91
Goods in transit	6,957,906.07	777,117.18	6,180,788.89	9,603,352.89	4,607,937.71	4,995,415.18

Others	119,115,090.58		119,115,090.58	160,672,004.62	160,672,004.62
Total	47,278,378,864.47	8,657,805.89	47,269,721,058.58	39,441,944,842.11	39,433,657,739.06

Note1: The increase of inventories mainly due to the increase in the development costs of real estate project belonging to the Lushang Health Industry Development Co.,Ltd. .

Note2: The net realizable value of inventories is determined by the sales price of inventories deducting the realized costs.

Note3: The amount of interest capitalized in the year-end balance of inventory is RMB5,397,404,983.56.

Note4: On December 31, 2019, the details of the company's inventories collateral are described in "Note 12. Contingent events".

## 8.8 Other current assets

Items	31-Dec-19	31-Dec-18
Input tax to be deducted	398,245,504.02	369,881,085.77
Prepaid taxes	1,026,141,385.30	1,110,741,427.58
Entrusted Loan	367,793,000.00	304,594,312.59
Financial product	70,000,000.00	80,800,000.00
Discounted assets	29,500,691.40	2,909,250.00
Clearing funds		
Precipitation funds		260,012,781.41
Others	55,756,420.75	4,682,187.48
<b>Total</b>	<b>1,947,437,001.47</b>	<b>2,133,621,044.83</b>

## 8.9 Loans and advances

## (1) General Category

Items	31-Dec-19	31-Dec-18
Public loans and advances	419,335,522.23	521,000,354.80
Personal loans and advances	76,810,000.00	54,708,430.35
Subtotal	<u>496,145,522.23</u>	<u>575,708,785.15</u>
Less: loan loss provisions	59,257,866.81	18,282,696.04
<b>Net- Value</b>	<b><u>436,887,655.42</u></b>	<b><u>557,426,089.11</u></b>

## (2) The distribution of loans and advances by way of guarantee is listed as follows:

Items	31-Dec-19		31-Dec-18	
	Amount	Rate	Amount	Rate
Credit Loans	50,000.00	0.01		
Guaranteed loans	97,033,026.18	19.56	148,560,000.00	25.80
Secured loans	393,262,496.05		425,948,785.15	
-Mortgage	25,180,000.00	5.08	10,950,000.00	1.90
- Pledged loans	93,982,996.05	18.94	132,242,882.49	22.97
- Warrandice + Mortgage Guarantee	22,700,000.00	4.58	5,100,000.00	0.89
- Warrandice + Collateral Guarantee	244,176,500.00	49.21	228,405,902.66	39.68
- Warrandice + Collateral Guarantee	1,800,000.00	0.36	1,800,000.00	0.31
- Discounted assets				
-Warrandice + Pledge Guarantee + Mortgage Guarantee	5,423,000.00	1.09	47,450,000.00	8.24
Assignment of accounts receivable	5,800,000.00	1.17	1,200,000.00	0.21



<b>Total</b>	<u>496,145,522.23</u>	<u>100.00</u>	<u>575,708,785.15</u>	<u>100.00</u>
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## (3) Changes in loan loss provisions:

Items	31-Dec-19	31-Dec-18
Opening Balance	18,282,696.04	4,741,993.49
Current draw	40,975,170.77	13,540,702.55
Write-off in this issue		
Turn back this issue		
- Recovery of original written off loans and advances		
- Reversal due to an increase in discounted value		
<b>Ending balance</b>	<u>59,257,866.81</u>	<u>18,282,696.04</u>

## 8.10 Debt investments

Items	31-Dec-19			31-Dec-18		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Trust Protection Fund	62,391,530.08		62,391,530.08	10,000,000.00		10,000,000.00
<b>Total</b>	<u>62,391,530.08</u>		<u>62,391,530.08</u>	<u>10,000,000.00</u>		<u>10,000,000.00</u>

## 8.11 Available-for-sale financial assets

## (1) General picture

Items	31-Dec-19		31-Dec-18	
	Book balance	Impairment provision	Book balance	Impairment provision
Debt instrument available-for-sale	1,160,094,582.67		542,688,575.36	5,426,885.75
Equity instrument available-for-sale	879,742,853.32		801,601,933.45	1,291,835.85
1.Measured at fair value	473,909,816.70		382,318,085.56	
2.Measured at cost	405,833,036.62	541,835.85	419,283,847.89	1,291,835.85
<b>Total</b>	<u>2,039,837,435.99</u>	<u>541,835.85</u>	<u>1,344,290,508.81</u>	<u>6,718,721.60</u>

## (2) The major principle available-for-sale financial assets :

Name of Invested company	31-Dec-19	31-Dec-18
Guotai Junan Securities Co.,Ltd.	451,685,978.87	374,247,117.16
Binzhou Rural Commercial Bank Co., Ltd.	240,000,000.00	240,000,000.00
Shandong Yellow River Delta Industrial Investment Fund Partnership	50,000,000.00	50,000,000.00
Taishan Property & Casualty Insurance Co., Ltd	30,000,000.00	30,000,000.00
Shandong Cultural Industry Investment Fund (limited)	20,000,000.00	20,000,000.00

Name of Invested company	31-Dec-19	31-Dec-18
Guotai Junan Investment Management Co., Ltd.	15,149,091.55	15,149,091.55
Galaxy Capital Asset Management Co., Ltd	10,481,257.60	8,070,968.40
China Everbright Bank Company Limited	5,503,015.71	5,503,015.71
Qingdao Cambridge Bay Medicine Science consultations Co., Ltd	5,000,000.00	5,000,000.00
Shandong Baofa Medical Science Co., Ltd	3,000,000.00	3,000,000.00
<b>Total</b>	<b><u>830,819,343.73</u></b>	<b><u>750,970,192.82</u></b>

### 8.12 Held-to-maturity investments

Items	31-Dec-19			31-Dec-18		
	Amount	Impairment provision	Book value	Amount	Impairment provision	Book value
Trust products	62,000,000.00		62,000,000.00	12,000,000.00		12,000,000.00
Others	124,428,140.60		124,428,140.60	209,941,917.81	2,099,419.18	207,842,498.63
<b>Total</b>	<b><u>186,428,140.60</u></b>		<b><u>186,428,140.60</u></b>	<b><u>221,941,917.81</u></b>	<b><u>2,099,419.18</u></b>	<b><u>219,842,498.63</u></b>

### 8.13 Long-term receivables

Items	31-Dec-19			31-Dec-18		
	Amount	Bad debt	Book value	Amount	Bad debt	Book value
Financing lease	1,158,125,651.89	39,631,256.53	1,118,494,395.36	467,980,513.92	4,640,651.49	463,339,862.43
Among them: unrealized financing income	105,362,519.72		105,362,519.72	45,831,342.76		45,831,342.76
Instalment sales merchandise						
Instalment collection services						
Others						
<b>Total</b>	<b><u>1,158,125,651.89</u></b>	<b><u>39,631,256.53</u></b>	<b><u>1,118,494,395.36</u></b>	<b><u>467,980,513.92</u></b>	<b><u>4,640,651.49</u></b>	<b><u>463,339,862.43</u></b>

### 8.14 Long-term equity investments

#### (1) General Category

Items	31-Dec-19	31-Dec-18
Long-term equity investment	794,495,742.83	642,912,429.74
Long-term equity investment impairment provisions	182,558,066.81	86,866,410.81
<b>Net long-term equity investments</b>	<b><u>611,937,676.02</u></b>	<b><u>556,046,018.93</u></b>

#### (2) Details of closing balances of major long-term equity investments

Name of invested Company	31-Dec-19	31-Dec-18
Linyi Jinqin Real Estate Development Co., Ltd	125,648,153.24	
Qilu Zhongtai Capital Management Co., Ltd.	124,651,102.31	127,734,735.03
Great Wall Qilu Restaurant Investment Management Co., Ltd.	100,291,490.56	100,291,490.56
Shandong Bausch & Fung Freda Pharmaceutical Co., Ltd.	89,809,896.66	80,223,251.04
Jinan Yinsheng Taibosheng Real Estate Co., Ltd	54,783,284.66	60,750,000.00
Hainan Renfa Company	34,900,000.00	34,900,000.00
Shandong Riyu Food Co., Ltd.	27,178,133.85	25,461,347.64
Linyi Shangcheng Real Estate Co., Ltd.	16,812,082.33	15,155,491.27
Jinping Fuyuan Mining Co., Ltd.	10,000,000.00	100,014,556.00
<b>Total</b>	<b>584,074,143.61</b>	<b>544,530,871.54</b>

### 8.15 Other equity instruments investments

#### (1) Details

Items	31-Dec-19			31-Dec-18		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Other equity instruments investments						
Other equity instruments investments	90,750,000.00	750,000.00	90,000,000.00	90,750,000.00	750,000.00	90,000,000.00
Measured at fair value						
Measured at cost	90,750,000.00	750,000.00	90,000,000.00	90,750,000.00	750,000.00	90,000,000.00
<b>Total</b>	<b>90,750,000.00</b>	<b>750,000.00</b>	<b>90,000,000.00</b>	<b>90,750,000.00</b>	<b>750,000.00</b>	<b>90,000,000.00</b>

#### (2) Other equity instruments investments measured at cost at the end of the period

Name of invested Company	Book balance				Impairment provision				Proportion of shares (%)	Cash dividend of the current period
	31-Dec-18	Increase	Decrease	31-Dec-19	31-Dec-18	Increase	Decrease	31-Dec-19		
Jinan birmin Real Estate Co., Ltd	90,000,000.00			90,000,000.00					15.00	
Guilin Department Store Co., Ltd	750,000.00			750,000.00	750,000.00			750,000.00	0.65	
<b>Total</b>	<b>90,750,000.00</b>			<b>90,750,000.00</b>	<b>750,000.00</b>			<b>750,000.00</b>		

## 8.16 Investment properties

Items	31-Dec-18	Increase			Decrease		31-Dec-19
		Purchase	Transfer in of self use real estate or inventory	Profit and loss from changes in fair value	Disposal	Transfer to self use real estate	
Total original cost	<u>4,874,171,241.45</u>		<u>634,545,358.07</u>	—	<u>50,000.00</u>	<u>52,505,227.64</u>	<u>5,456,161,371.88</u>
Including: Building and Construction	3,871,259,586.86		618,025,797.64	—		50,531,931.87	4,438,753,452.63
Land-use right	1,002,911,654.59		16,519,560.43	—	50,000.00	1,973,295.77	1,017,407,919.25
Total changes in fair value	<u>1,289,823,490.22</u>			<u>-93,288,187.93</u>			<u>1,196,535,302.29</u>
Including: Building and Construction	1,010,852,756.51			-68,052,342.42			942,800,414.09
Land-use right	278,970,733.71			-25,235,845.51			253,734,888.20
Total book value	<u>6,163,994,731.67</u>						<u>6,652,696,674.17</u>
Including: Building and Construction	4,882,112,343.37						5,381,553,866.72
Land-use right	1,281,882,388.30						1,271,142,807.45

Note 1: The Company's investment properties adopts the fair value model for subsequent measurement.

Note 2: The value of houses and buildings that have not yet completed the property right certificate (in process) at the end of the period is RMB245,096,375.80.

## 8.17 Fixed assets

Items	31-Dec-19	31-Dec-18
Fixed assets	9,255,785,209.05	8,959,052,720.99
Disposal of fixed assets		10,868,365.70
Total	<u>9,255,785,209.05</u>	<u>8,969,921,086.69</u>

## (1) Fixed assets

Items	31-Dec-18	Increase	Decrease	31-Dec-19
Total original cost	<u>14,362,432,580.18</u>	<u>1,434,837,996.80</u>	<u>696,412,084.69</u>	<u>15,100,858,492.29</u>
Building and Construction	11,004,132,934.17	1,120,732,909.61	482,621,680.98	11,642,244,162.80
Machinery equipment	1,166,561,486.61	46,295,780.43	16,696,145.08	1,196,161,121.96
Electrical equipment	936,953,395.27	82,580,474.14	37,717,334.23	981,816,535.18
Transportation	141,153,581.47	28,079,431.35	32,857,757.38	136,375,255.44
Office equipment	22,313,702.00	77,506,558.16	76,951,609.03	22,868,651.13

Items	31-Dec-18	Increase	Decrease	31-Dec-19
Other equipment	1,091,317,480.66	79,642,843.11	49,567,557.99	1,121,392,765.78
<b>Total accumulated depreciation</b>	<u>5,402,278,125.87</u>	<u>682,351,797.50</u>	<u>239,584,205.13</u>	<u>5,845,045,718.24</u>
Building and Construction	3,405,888,508.91	451,809,615.42	133,142,367.42	3,724,555,756.91
Machinery equipment	711,754,472.66	49,187,036.71	14,998,185.96	745,943,323.41
Electrical equipment	601,043,678.22	51,391,813.87	25,483,713.17	626,951,778.92
Transportation	89,836,587.42	10,701,786.31	19,192,662.92	81,345,710.81
Office equipment	13,058,298.59	32,918,143.02	23,269,814.92	22,706,626.69
Other equipment	580,696,580.07	86,343,402.17	23,497,460.74	643,542,521.50
<b>Total provision for impairment</b>	<u>1,101,733.32</u>		<u>1,074,168.32</u>	<u>27,565.00</u>
Building and Construction	27,565.00			27,565.00
Machinery equipment				
Electrical equipment	40,555.53		40,555.53	
Transportation				
Office equipment				
Other equipment	1,033,612.79		1,033,612.79	
<b>Total book value</b>	<u>8,959,052,720.99</u>			<u>9,255,785,209.05</u>
Building and Construction	7,598,216,860.26			7,917,660,840.89
Machinery equipment	454,807,013.95			450,217,798.55
Electrical equipment	335,869,161.52			354,864,756.26
Transportation	51,316,994.05			55,029,544.63
Office equipment	9,255,403.41			162,024.44
Other equipment	509,587,287.80			477,850,244.28

## (2) Disposal of fixed assets

Items	31-Dec-19	31-Dec-18	Reason
Construction company warehouse		10,868,365.70	
<b>Total</b>		<u>10,868,365.70</u>	

(3) As of December 31, 2019, in order to reduce the cost of capital, Linyi Lushang Real Estate Co., Ltd. replaced the hotel operating property loan of the former Bohai Bank Jinan branch with the loan of China Post Savings Bank Jinan Branch, obtained the guarantee of the Bohai Bank Jinan Branch by mortgage of real estate and land use right as the guarantee for the business, and mortgaged the original value of fixed assets was RMB460,091,886.30, the net value of fixed assets is RMB356,890,719.94 for

daily capital turnover, Shandong furida Biotechnology Co., Ltd. loans to Linshu agricultural and commercial bank with real estate and land use right mortgage, the original value of mortgaged fixed assets is RMB21,220,788.74, and the net value of fixed assets is RMB 12,022,013.68.

(4) As of December 31, 2019, the original value of the Company's fixed assets under financing lease is RMB86,017.68.

(5) As of December 31, 2019, the original value of houses and buildings whose ownership certificates have not been obtained is RMB 878,034,902.99.

### 8.18 Construction in progress

Items	31-Dec-19		31-Dec-18	
	Book balance	Impairment provision	Book balance	Impairment provision
Teaching building project of Urban Service College	170,425,308.05		137,858,328.18	
Dormitory building, training building, etc	149,650,700.74		24,309,408.54	
Inzone Automobile Tianqi Real Estate Project			301,007,081.23	
Inzone Group Zibo Center Store Project			10,131,000.59	
Qilu Medical College New Campus Construction	4,300,383.16		645,426,239.00	
Others	183,010,220.63	668,396.81	363,145,529.78	668,396.81
Construction materials	3,272,333.16		99,918.00	
<b>Total</b>	<u>510,658,945.74</u>	<u>668,396.81</u>	<u>1,481,977,505.32</u>	<u>668,396.81</u>

### 8.19 Intangible assets

Items	31-Dec-18	Increase	Decrease	31-Dec-19
<b>Total original cost</b>	<u>3,286,558,720.81</u>	<u>156,429,520.26</u>	<u>208,720,772.42</u>	<u>3,234,267,468.65</u>
Software	400,934,850.79	14,121,129.89	15,496,024.52	399,559,956.16
Land use rights	2,813,577,647.32	142,263,386.58	147,998,347.90	2,807,842,686.00
Patent	1,502,615.54			1,502,615.54
Nonpatented technology	301,866.69	2,240.00		304,106.69
Trademark rights	263,976.50	42,763.79	6,500.00	300,240.29
Copyright	660,000.00			660,000.00
Chartered right	69,317,763.97		45,219,900.00	24,097,863.97
<b>Total amortization</b>	<u>782,738,125.07</u>	<u>97,749,799.21</u>	<u>51,119,072.08</u>	<u>829,368,852.20</u>
Software	123,842,356.41	16,345,066.83	3,345,352.11	136,842,071.13
Land use rights	629,829,014.90	76,646,753.23	30,386,678.54	676,089,089.59
Patent	430,000.00			430,000.00

Nonpatented technology	175,256.80	27,397.99		202,654.79
Trademark rights	238,000.00	1,633.52		239,633.52
Copyright	551,666.22	49,999.92		601,666.14
Chartered right	27,671,830.74	4,678,947.72	17,387,041.43	14,963,737.03
<b>Total provision for impairment</b>	<u>2,381,119.50</u>			<u>2,381,119.50</u>
Software				
Land use rights	2,381,119.50			2,381,119.50
Patent				
Nonpatented technology				
Trademark rights				
Copyright				
Chartered right				
<b>Total book value</b>	<u>2,501,439,476.24</u>			<u>2,402,517,496.95</u>
Software	277,092,494.38			262,717,885.03
Land use rights	2,181,367,512.92			2,129,372,476.91
Patent	1,072,615.54			1,072,615.54
Nonpatented technology	126,609.89			101,451.90
Trademark rights	25,976.50			60,606.77
Copyright	108,333.78			58,333.86
Chartered right	41,645,933.23			9,134,126.94

## 8.20 Development expenses

Items	31-Dec-18	Increase		Decrease			31-Dec-19
		Internal development expenses	Others	Recognized as intangible assets	Transferred to current profit and loss	Others	
FRD1911 patch research and development project			1,747,572.82				1,747,572.82
Development project of multifunctional automatic Apple Juicer vending machine			258,180.14				258,180.14
<b>Total</b>			<u>2,005,752.96</u>				<u>2,005,752.96</u>

## 8.21 Goodwill

Items	31-Dec-18	Increase	Decrease	31-Dec-19
Goodwill	1,920,469,689.18			1,920,469,689.18
<b>Total</b>	<u>1,920,469,689.18</u>			<u>1,920,469,689.18</u>



**8.22 Long-term prepaid expenses**

Items	31-Dec-18	Increase	Decrease	Including: amortization	31-Dec-19
Dongying Dongcheng Ginza Plaza Project	18,188,519.31		801,039.27	801,039.27	17,387,480.04
Rental fees	66,835,264.43	14,141,845.17	33,059,103.37	33,059,103.37	47,918,006.23
Rental fixed assets improvement expenditure	619,170,115.96	12,416,257.82	151,205,965.75	151,164,785.21	480,380,408.03
Renovation costs	84,721,691.72	22,944,425.79	34,810,112.63	29,961,658.64	72,856,004.88
Consulting fee, underwriting fee	69,139,921.48	798,492.62	24,047,627.89	24,047,627.89	45,890,786.21
Others	10,180,893.38	41,945,614.10	16,975,040.31	16,975,040.31	35,151,467.17
<b>Total</b>	<u>868,236,406.28</u>	<u>92,246,635.50</u>	<u>260,898,889.22</u>	<u>256,009,254.69</u>	<u>699,584,152.56</u>

**8.23 Deferred income tax assets**

Items	31-Dec-19	31-Dec-18
Deferred income tax assets arising from the difference between the book value and the tax base of assets	125,557,095.84	106,490,431.98
Deferred income tax assets arising from the difference between the book value and the tax base of liabilities	140,947,728.97	153,275,579.21
Deductible loss	70,932,271.79	72,276,918.12
Others	105,409,337.54	99,576,137.28
<b>Total</b>	<u>442,846,434.14</u>	<u>431,619,066.59</u>

**8.24 Other non-current assets**

Items	31-Dec-19	31-Dec-18
Prepaid taxes	8,067,224.73	32,471,061.90
Advance payment for land	35,869,603.06	35,869,603.06
Prepaid equipment	6,011,917.31	21,294,758.28
Loans	395,140,000.00	
Others	47,190,668.21	900,776.86
Subtotal	492,279,413.31	90,536,200.10
Impairment preparation	3,787,100.00	
<b>Total</b>	<u>488,492,313.31</u>	<u>90,536,200.10</u>

**8.25 Short-term loans**

Items	31-Dec-19	31-Dec-18
Mortgage loan	1,093,000,000.00	445,000,000.00

Guaranteed loan	9,130,925,248.16	6,112,175,856.98
Credit loan	2,518,350,000.00	2,430,424,900.00
Pledge loan	1,233,460,000.00	2,285,587,800.00
<b>Total</b>	<b><u>13,975,735,248.16</u></b>	<b><u>11,273,188,556.98</u></b>

**8.26 Absorption of deposits and interbank deposit**

Items	31-Dec-19	31-Dec-18
Company demand deposit		27,087,343.11
<b>Total</b>		<b><u>27,087,343.11</u></b>

**8.27 Deposit funds**

Items	31-Dec-19	31-Dec-18
Yankuang Group Finance Co., Ltd.		200,000,000.00
<b>Total</b>		<b><u>200,000,000.00</u></b>

**8.28 Notes payable**

Items	31-Dec-19	31-Dec-18
Bank acceptance bills	4,358,957,312.79	4,335,934,346.47
Commercial acceptance bills	1,418,887,721.56	
<b>Total</b>	<b><u>5,777,845,034.35</u></b>	<b><u>4,335,934,346.47</u></b>

The amount due in the next accounting period is RMB5,777,845,034.35.

**8.29 Accounts payable**

Items	31-Dec-19	31-Dec-18
Accounts payable	<u>9,161,847,545.95</u>	<u>8,745,576,223.87</u>

Note 1: There are no accounts payables to those shareholders who hold 5% or more voting shares.

Note 2: There is no balance of accounts payable in foreign currencies.

**8.30 Advances from customers**

Items	31-Dec-19	31-Dec-18
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Items	31-Dec-19	31-Dec-18
Advances from customers	<u>17,111,812,995.99</u>	<u>15,615,616,085.99</u>

Note: There are no advances from customers to those shareholders who hold 5% or more voting shares.

### 8.31 Financial assets sold for repurchase

Items	31-Dec-19	31-Dec-18
PBOC rediscounting		200,000,000.00
Pledge-style Repo	880,000,000.00	72,750,000.00
<b>Total</b>	<u>880,000,000.00</u>	<u>272,750,000.00</u>

### 8.32 Employee remuneration payable

#### (1) General picture

Items	31-Dec-19	31-Dec-18
1.Short-term employee benefits	405,604,033.67	341,764,635.47
2.Post-employment benefits-defined contribution plan	4,970,529.92	1,469,214.92
3.Termination benefits	2,620,033.63	1,908,031.90
4. Other benefits due within one year		
5. Others		
<b>Total</b>	<u>413,194,597.22</u>	<u>345,141,882.29</u>

#### (2) Short-term employment benefits

Items	31-Dec-19	31-Dec-18
1.Employee Salaries and wages, bonus, allowance and subsidies	146,491,756.65	108,495,614.96
2. Staff welfare expense	562,244.34	183,935.49
3. Social insurance expenses	478,105.98	362,882.09
Inc:		
Medical insurance premium	429,474.47	321,453.75
Work-related injury insurance premium	18,688.49	16,907.26
Maternity insurance premium	29,943.02	24,521.08
Others		
4.Housing fund	1,263,751.71	1,544,920.00
5. Labor union expenditures and employee education expenses	256,433,913.35	223,341,596.58

Items	31-Dec-19	31-Dec-18
6.Short-term paid absence		
7.Short-term profit-sharing plan		
9.Others	374,261.64	7,835,686.35
<b>Total</b>	<u>405,604,033.67</u>	<u>341,764,635.47</u>

## (3) Defined contribution plan

Items	31-Dec-19	31-Dec-18
1.Basic pension insurance	4,772,092.40	1,384,196.14
2.Unemployment insurance	183,685.08	85,018.78
3.Corporate annuity contribution	14,752.44	
<b>Total</b>	<u>4,970,529.92</u>	<u>1,469,214.92</u>

## 8.33 Taxes and surcharges payable

Items	31-Dec-19	31-Dec-18
VAT	409,225,440.70	454,874,412.44
Business tax	17,814,746.90	17,560,795.16
Consumption tax	5,013,194.96	5,068,197.23
Corporate income tax	179,046,361.84	109,538,488.26
City maintenance and construction tax	5,964,629.83	6,307,493.12
Property tax	36,247,945.77	36,753,455.20
Personal Income Tax	7,402,155.63	7,566,859.71
Land holding tax	13,091,063.13	13,565,139.43
Land appreciation tax	268,936,179.19	124,826,744.42
Additional education fee	4,947,975.10	5,085,161.17
Other taxes	11,516,425.82	11,572,920.60
<b>Total</b>	<u>959,206,118.87</u>	<u>792,719,666.74</u>

## 8.34 Other payables

Items	31-Dec-19	31-Dec-18
Interest payable	171,392,078.33	287,035,637.30
Dividend payable	48,187,327.97	187,628,615.18

Other payables	6,823,564,261.79	4,576,764,682.64
<b>Total</b>	<u>7,043,143,668.09</u>	<u>5,051,428,935.12</u>

## (1) Interest payable

Items	31-Dec-19	31-Dec-18
Interest of loan	47,061,404.36	49,078,924.97
Interest of corporation bond	124,330,673.97	237,956,712.33
<b>Total</b>	<u>171,392,078.33</u>	<u>287,035,637.30</u>

## (2) Dividend payable

Items	31-Dec-19	31-Dec-18
Common stock	48,187,327.97	187,628,615.18
<b>Total</b>	<u>48,187,327.97</u>	<u>187,628,615.18</u>

## (3) Other payables

Items	31-Dec-19	31-Dec-18
Other payables	6,823,564,261.79	4,576,764,682.64
<b>Total</b>	<u>6,823,564,261.79</u>	<u>4,576,764,682.64</u>

(4) On December 31, 2019, there was no amount due to a shareholder holding 5% or more of the Group's shares.

## 8.35 Non-current liabilities maturing within one year

Items	31-Dec-19	31-Dec-18
Long-term loans due within one year	4,516,794,853.95	3,087,917,357.58
Bond payable due within one year	5,300,000,000.00	9,299,758,178.41
Long-term loan interest payable	831,706.94	921,173.22
<b>Total</b>	<u>9,817,626,560.89</u>	<u>12,388,596,709.21</u>

Note: There are no overdue loans in long-term loans due within one year.

## 8.36 Other current liabilities

Items	31-Dec-19	31-Dec-18
Entrusted loan	29,409,666.66	
<b>Total</b>	<u>29,409,666.66</u>	

**8.37 Long-term loans**

Items	31-Dec-19	31-Dec-18
Credit loan	953,365,900.00	1,230,000,000.00
Mortgage loan	351,500,000.00	975,800,000.00
Guaranteed loan	3,623,388,372.08	4,851,420,000.00
Mortgage+ Guaranteed loan	3,108,150,000.00	2,109,047,679.39
Pledge loan	380,000,000.00	
<b>Total</b>	<b><u>8,416,404,272.08</u></b>	<b><u>9,166,267,679.39</u></b>

Note: As of December 31, 2019, there is no overdue loan in long-term loans.

**8.38 Bonds payable****1. Bonds payable**

Item	31-Dec-19	31-Dec-18
Medium and Long-term bonds	7,046,143,024.16	5,411,293,369.86
<b>Total</b>	<b><u>7,046,143,024.16</u></b>	<b><u>5,411,293,369.86</u></b>

**2. The principle of Bonds payable**

Items	Issuing date	Expiry date	Face amount
16 Lushang 01	2016-4-8	2021-4-8	1,000,000,000.00
16 Lushang 02	2016-4-22	2021-4-22	110,000,000.00
18 Lushang 02	2018-11-16	2021-11-15	1,400,000,000.00
18 Lushang MTN001	2018-11-16	2021-11-15	900,000,000.00
19 Lushang MTN001	2019-11-1	2022-10-31	1,540,000,000.00
Dollar Bond	2018-12-31	2021-12-31	811,104,000.00
Dollar Bond	2019-6-3	2021-12-31	1,272,387,240.00
<b>Total</b>			<b><u>7,033,491,240.00</u></b>

**8.39 Long-term payable**

Item	31-Dec-19	31-Dec-18
Long-term payable	2,034,855,687.34	916,944,864.20
Special accounts payable	41,937,789.74	65,881,511.33
<b>Total</b>	<b><u>2,076,793,477.08</u></b>	<b><u>982,826,375.53</u></b>

## 1. Long-term payable

Item	31-Dec-19	31-Dec-18
Financing lease	1,938,521,307.34	820,610,484.20
Long-term intercourse loans	80,200,000.00	80,200,000.00
Others	16,134,380.00	16,134,380.00
<b>Total</b>	<u>2,034,855,687.34</u>	<u>916,944,864.20</u>

## 2. Special accounts payable

Items	31-Dec-19	31-Dec-18
Dial in special funds	26,063,000.86	29,849,659.88
Research funds	2,729,654.83	2,676,896.45
Others	13,145,134.05	33,354,955.00
<b>Total</b>	<u>41,937,789.74</u>	<u>65,881,511.33</u>

## 8.40 Long-term employee remuneration payable

Items	31-Dec-18	Increase	Decrease	31-Dec-19
1. Post-employment benefits				
Inc: net liability of defined benefits plan				
2. Termination benefits	6,662,647.28		2,482,996.53	4,179,650.75
3. Other long-term benefits				
Inc: long-term disability benefits				
<b>Total</b>	<u>6,662,647.28</u>		<u>2,482,996.53</u>	<u>4,179,650.75</u>

## 8.41 Estimated liabilities

Items	31-Dec-19	31-Dec-18
Unexpired liability reserve	3,114,179.48	4,075,227.44
Guaranteed compensation reserve		
Pending litigation	51,407,413.56	59,097,300.00
<b>Total</b>	<u>54,521,593.04</u>	<u>63,172,527.44</u>

## 8.42 Deferred income

Items	31-Dec-19	31-Dec-18
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Government grant	195,345,512.68	218,272,326.84
<b>Total</b>	<u>195,345,512.68</u>	<u>218,272,326.84</u>

**8.43 Deferred income tax liabilities**

Items	31-Dec-19		31-Dec-18	
	Temporary differences	Deferred tax liabilities	Temporary differences	Deferred tax liabilities
Assessment of value added	1,776,456,406.08	444,114,101.52	1,812,761,140.52	453,190,285.13
Depreciation and amortization	248,991.80	62,247.95	1,370,812.88	342,703.22
Changes in fair value of available-for-sale financial assets recorded into other comprehensive income	566,411,295.40	141,602,823.85	488,980,529.68	122,245,132.42
Others	15,618,473.00	3,904,618.25	15,618,473.00	3,904,618.25
<b>Total</b>	<u>2,358,735,166.28</u>	<u>589,683,791.57</u>	<u>2,318,730,956.08</u>	<u>579,682,739.02</u>

**8.44 Paid-in capital**

Items	31-Dec-18	Increase	Decrease	31-Dec-19
State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government	854,000,000.00			854,000,000.00
Shandong Guohui Investment Co., Ltd	244,000,000.00			244,000,000.00
Shandong Provincial Social Security Fund Council	122,000,000.00			122,000,000.00
Shandong Province Commercial Group Co., Ltd. (Institutional Organization)	877,767,489.50			877,767,489.50
<b>Total</b>	<u>2,097,767,489.50</u>			<u>2,097,767,489.50</u>

**8.45 Other equity instruments**

Items	31-Dec-19	31-Dec-18
Perpetual bond	5,910,178,377.36	6,300,178,377.36
<b>Total</b>	<u>5,910,178,377.36</u>	<u>6,300,178,377.36</u>

Note1: On September 1, 2014, According to *Shandong Provincial SASAC approved the registration of Shandong Province Commercial Group Co., Ltd. to issue RMB 2 billion long-term entitled medium-term notes*(Lu State Capital Income Letter [2014] No. 41), Shandong Commercial Group Co., Ltd. issued a RMB1.7-billion perpetual debt in December 2014.

Note2: On February 12, 2015, According to *Shandong Provincial SASAC approved the registration of Shandong Province Commercial Group Co., Ltd. to issue RMB 2 billion long-term entitled medium-term notes*(Lu State Capital Income Letter [2015] No. 6), Shandong Commercial Group Co., Ltd. issued a RMB1.9-billion perpetual debt in June 2015.

Note3: On August 7, 2017, Shandong Provincial SASAC released *Shandong Provincial SASAC approved that Shandong Province Commercial Group Co., Ltd. issues renewable corporation bond* (Lu State Capital Income Letter [2017] No. 47) to agree with the plan that the total amount of issue is not more than 4.4 billion yuan.

Note4: On April 27, 2018, Shandong Provincial SASAC released the reply of Shandong Provincial SASAC on the issuance of 1.7 billion yuan medium term notes and 1.2 billion yuan long-term restricted medium term notes by Shandong Commercial Group Co., Ltd. (Lu State Capital Income Letter [2018] No. 33). It was agreed that the Company registered to issue no more than 1.7 billion yuan medium term notes and no more than 1.2 billion yuan long-term restricted medium term notes.

#### 8.46 Capital reserves

Items	31-Dec-18	Increase	Decrease	31-Dec-19	Note
Capital (stock) premium	465,272,151.70	18,550,710.00		483,822,861.70	
Others	85,807,780.76	48,878,176.76		134,685,957.52	
Total	<u>551,079,932.46</u>	<u>67,428,886.76</u>		<u>618,508,819.22</u>	

#### 8.47 Other comprehensive income

Items	31-Dec-18	2019	31-Dec-19
I. Other comprehensive income that cannot be reclassified into profit or loss in the future			
II. Other comprehensive income that will be reclassified into profit or loss in the future	260,695,797.14	63,391,367.29	324,087,164.43
Including: Shares of other comprehensive income that will be reclassified into profit or loss after the investee in the equity method			
Changes in fair value of available-for-sale financial assets	192,561,504.13	55,031,722.42	247,593,226.55
Translation differences in foreign currency financial statements	3,671,238.68	-249,919.35	3,421,319.33
Others	64,463,054.33	8,609,564.22	73,072,618.55

Items	31-Dec-18	2019	31-Dec-19
Total other comprehensive income	<u>260,695,797.14</u>	<u>63,391,367.29</u>	<u>324,087,164.43</u>

#### 8.48 Special reserves

Items	31-Dec-18	Increase	Decrease	31-Dec-19	Notes
Price stabilize funds	1,454,631.97		1,454,631.97		
Total	<u>1,454,631.97</u>		<u>1,454,631.97</u>		

#### 8.49 Surplus reserves

Items	31-Dec-18	Increase	Decrease	31-Dec-19
Statutory surplus reserve	615,772,668.59		46,608,914.26	569,163,754.33
Total	<u>615,772,668.59</u>		<u>46,608,914.26</u>	<u>569,163,754.33</u>

#### 8.50 Undistributed profits

Items	31-Dec-19	31-Dec-18
Opening balance	2,539,544,828.17	1,856,699,201.33
Add: Adjustment due to changes in accounting policies	2,205,078.10	613,213,377.01
Corrections of prior period errors		
Adjusted opening balance	2,541,749,906.27	2,469,912,578.34
Changes in current' year	-9,256,937.82	69,632,249.83
Inc: Net income(or losses )	389,336,680.64	94,930,691.50
Other increases		-57,702,692.19
Distribution to owners (or shareholders)	-444,979,671.14	-158,550,000.00
Withdrawal surplus reserves	46,608,914.26	190,954,250.52
Withdrawal generic risk reserve	-222,861.58	
Owner's equity internal transfer		
Other reductions		
Ending balance	<u>2,532,492,968.45</u>	<u>2,539,544,828.17</u>

#### 8.51 Operating income and operating cost

##### (1) Operating income and operating cost

Items	2019	2018
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Items	2019	2018
Main Operating income	37,528,255,434.80	35,597,476,306.15
Other operating income	2,238,927,430.48	2,275,538,248.58
Interest income	64,043,236.11	80,386,400.98
Fee and commission income	1,621,107.51	2,243,479.09
<b>Total</b>	<b>39,832,847,208.90</b>	<b>37,955,644,434.80</b>
Main Operating cost	31,056,939,394.19	29,478,269,161.86
Other operating costs	428,106,654.29	431,170,920.80
Interest expenses	23,190,801.36	18,943,727.32
Commission and commission expenses	729,689.07	58,367.08
<b>Total</b>	<b>31,508,966,538.91</b>	<b>29,928,442,177.06</b>

## (2) Constitution of main operating income

Items	2019		2018	
	Main Operating income	Main Operating cost	Main Operating income	Main Operating cost
Real estate sales	8,846,644,555.64	7,458,824,801.09	7,499,187,897.44	6,343,768,776.60
Business	17,742,479,099.56	15,384,395,873.63	20,464,069,869.14	17,239,945,468.83
Car sales	5,107,586,066.71	4,963,336,548.06	4,345,869,469.30	4,192,777,090.59
Medicine	912,601,160.61	326,126,487.89	835,789,242.96	314,089,360.56
Property	78,237,821.92	77,936,584.23	110,715,143.61	109,687,029.40
Financial Services	971,361,193.28	541,542,672.31	735,869,944.82	342,708,757.78
Educational services	1,019,672,857.95	668,395,592.51	932,993,849.52	573,249,059.53
Pharmaceutical R&D and Design	172,111,169.94		119,674,047.53	
Others	2,677,561,509.19	1,636,380,834.47	553,306,841.83	362,043,618.57
<b>Total</b>	<b>37,528,255,434.80</b>	<b>31,056,939,394.19</b>	<b>35,597,476,306.15</b>	<b>29,478,269,161.86</b>

## 8.52 Taxes and surcharges

Items	2019	2018
Business tax	45,357,495.57	60,599,332.51
City maintenance and construction tax	63,051,879.76	70,099,639.11
Additional education fee	30,535,241.78	41,810,081.31
Local education surcharges	14,891,859.39	9,218,691.11
Property tax (Investment properties)	131,763,624.75	128,022,779.06
Land use tax (Investment properties)	24,045,755.13	29,778,416.55
Water conservancy construction fund	3,936,386.94	4,340,324.36
Consumption tax	53,998,017.50	56,763,595.90
Land appreciation tax	542,026,782.11	377,669,076.65

Items	2019	2018
Vehicle and vessel tax	97,860.71	68,250.46
Stamp duty	17,784,692.35	13,392,447.23
Others	5,134,978.93	8,407,688.92
<b>Total</b>	<b>932,624,574.92</b>	<b>800,170,323.17</b>

### 8.53 Selling expenses

Items	2019	2018
Shipping fee	27,621,189.60	29,520,181.48
Travel expense	19,213,189.08	35,531,792.94
Sales service fee	98,207,389.82	310,090,098.27
Business Hospitality	6,177,090.01	130,989,251.86
Employee's salary	1,585,926,617.96	1,466,294,103.57
Advertising and promotion fees	457,738,162.59	276,700,952.04
Conference fees	6,093,269.11	22,499,066.00
Office fee	9,550,421.25	22,467,096.46
Rental fees	557,303,148.35	504,125,891.18
Energy costs	283,898,877.85	322,056,811.57
Estate managing fee	197,831,130.49	176,599,109.72
Depreciation	311,843,856.90	336,873,539.57
Amortization of long-term deferred expenses	164,634,577.14	145,354,474.53
Others	440,340,623.53	316,199,797.30
<b>Total</b>	<b>4,166,379,543.68</b>	<b>4,095,302,166.49</b>

### 8.54 General and administrative expenses

Items	2019	2018
Employee's salary	764,893,593.76	553,196,118.48
Depreciation	82,180,105.68	82,581,697.52
Repair fee	9,369,006.58	11,357,814.31
Amortisation of intangible assets	79,617,190.64	79,864,390.22
Business Hospitality	18,369,540.56	17,379,316.47
Travelling expense	18,371,738.65	25,093,451.76
Office fee	29,723,969.45	37,361,765.56
Conference fees	4,937,393.72	4,400,136.68
Agency fee	71,246,270.20	52,689,432.96
Consulting fee	2,408,902.31	5,130,996.72

Items	2019	2018
Rental fees	128,015,551.16	90,654,061.58
Others	208,694,217.42	402,077,524.97
<b>Total</b>	<b><u>1,417,827,480.13</u></b>	<b><u>1,361,786,707.23</u></b>

**8.55 Research and development expenses**

Items	2019	2018
Depreciation	9,400,509.37	591,238.83
Amortisation of intangible assets	6,123,406.56	322,284.93
Employee's salary	84,075,100.08	62,089,399.41
Maintenance and repair fee	734,170.46	1,465,623.75
Commodity and service expenditure	28,935,949.92	31,128,262.09
Other capital expenditure	988,525.94	1,973,393.33
Medicine item	6,656,407.71	13,288,179.94
Additive item	3,359,710.73	6,706,987.12
Cosmetics item	5,078,179.99	10,137,565.55
Others	716,175.12	1,429,699.66
<b>Total</b>	<b><u>146,068,135.88</u></b>	<b><u>129,132,634.61</u></b>

**8.56 Financial expenses**

Items	2019	2018
Interest expense	800,617,841.23	610,096,371.27
Less: Interest income	51,385,649.39	44,734,637.00
Net loss of foreign exchange	1,724,060.16	535,495.10
Less: Net income of foreign exchange	2,198,317.27	4,432,695.90
Service charge	223,565,981.91	170,241,479.15
Others		96,434.06
<b>Total</b>	<b><u>972,323,916.64</u></b>	<b><u>731,802,446.68</u></b>

**8.57 Other income**

Items	2019	2018
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Items	2019	2018
Steady job subsidy	2,427,674.13	565,461.14
Government grant	74,533,476.69	55,366,589.65
Personal Income Tax service charge restitution	1,120,797.52	332,191.41
<b>Total</b>	<b><u>78,081,948.34</u></b>	<b><u>56,264,242.20</u></b>

### 8.58 Investment income

Sources of investment income	2019	2018
Investment income from long-term equity investments recorded by equity method	162,854,353.05	33,024,436.39
Income from the disposal of long-term equity investments	355,607,217.16	268,741,995.40
Investment income from financial assets measured at fair value through current profit and loss	102,001,066.75	-24,984,753.00
Investment income from disposal of financial assets measured at fair value through current profit and loss	-1,049,776.08	8,014,403.57
Investment income from investment held to maturity in the holding period	7,541,618.84	
Investment income from disposal of investment held to maturity	1,209,367.67	
Investment income from financial assets available for sale in the holding period	11,064,724.37	17,767,327.60
Investment income from disposal of financial assets available for sale	9,275,886.74	173,104,428.94
Interest income from debt investments in the holding period (Application of new criteria)		
Interest income from other debt investments in the holding period (Application of new criteria)	6,959,968.45	3,561,534.22
Investment income from disposal of debt investments (Application of new criteria)		
Investment income from disposal of other debt investments (Application of new criteria)		
Gain from remeasuring the stock at fair value after taking control		
Gain from remeasuring the left stock at fair value after losing control		
Dividend income from other equity instruments in the holding period (Application of new criteria)		
Others	5,965,691.80	244,717.37
<b>Total</b>	<b><u>661,430,118.75</u></b>	<b><u>479,474,090.49</u></b>

### 8.59 Gains from changes in fair value

Items	2019	2018
Financial assets measured at fair value through current profit and loss	139,985,045.13	-1,356,550.39
Investment properties measured at fair value	-112,874,920.99	-93,723,874.32
<b>Total</b>	<b><u>27,110,124.14</u></b>	<b><u>-95,080,424.71</u></b>



**8.60 Losses from credit impairment**

Items	2019	2018
1.Bad debt loss	-13,405,142.47	
2.Credit impairment of debt investments		
3.Credit impairment of other debt investments		
4.Credit impairment of long-term lease receivables		
5.Credit impairment of long-term receivables (excluding long-term lease receivables)		
6.Credit impairment of contractual assets		
7.Others		
<b>Total</b>	<b>-13,405,142.47</b>	

**8.61 Losses from asset impairment**

Items	2019	2018
1.Bad debt loss	-122,885,430.60	-384,117,520.97
2.Devalued inventories loss	-4,020,472.27	-4,126,117.50
3.Available-for-sale financial assets loss		-5,426,885.75
4. Held-to-maturity investments loss		-2,099,419.18
5.Long-term equity investment impairment loss	-100,014,556.00	-3,000,000.00
6.Other loss	-44,317,231.54	-11,440,702.55
<b>Total</b>	<b>-271,237,690.41</b>	<b>-410,210,645.95</b>

**8.62 Gain/(loss) from asset disposal**

Items	2019	2018
Gains and losses on disposal of non-current assets	-24,577,676.30	2,568,069.47
Gains and losses on others		2,339,962.00
<b>Total</b>	<b>-24,577,676.30</b>	<b>4,908,031.47</b>

**8.63 Non-operating income**

Items	2019	2018
Government Grant	12,737,360.34	23,714,935.75
Non-current asset disposal gains	914,488.93	2,416,105.85
Debt restructuring gains		38,080.85

Items	2019	2018
Others	32,538,273.77	53,715,052.09
<b>Total</b>	<b><u>46,190,123.04</u></b>	<b><u>79,884,174.54</u></b>

**8.64 Non-operating expenses**

Items	2019	2018
Loss on disposal of non-current assets	2,937,504.50	4,111,554.28
Losses from debt restructuring		39,468.30
Others	74,995,253.18	111,570,691.47
<b>Total</b>	<b><u>77,932,757.68</u></b>	<b><u>115,721,714.05</u></b>

**8.65 Income tax expenses**

Items	2019	2018
Income tax expenses	459,066,546.50	513,774,411.72
<b>Total</b>	<b><u>459,066,546.50</u></b>	<b><u>513,774,411.72</u></b>

**8.66 Regulate net profit as net flow from operating activities****(1) Supplementary information of cash flow statement**

<b>1. Regulate net profit as operating activity cash flow:</b>	<b>2019</b>	<b>2018</b>
Net profit	655,249,519.65	394,751,321.83
Add: asset impairment	284,642,832.88	410,210,645.95
Depreciation of fixed assets, loss of oil and gas assets, and depreciation of productive biological assets	682,351,797.50	806,966,382.16
Amortization of intangible assets	97,749,799.21	137,918,776.08
Amortization of long-term deferred expenses	256,009,254.69	247,779,852.30
Loss of disposal of fixed assets, intangible assets and other long-term assets	26,600,691.87	3,212,583.04
Loss of retirement of fixed assets		
Loss of fair value change	-27,110,124.14	95,080,424.71
Financial expenses	800,617,841.23	610,096,371.27
Loss of investment	-661,430,118.75	-479,474,090.49
Deferred income tax assets decreased	-10,471,438.10	-5,098,893.48
Deferred income tax liabilities increase	10,001,052.55	85,393,886.22
Reduction of inventory	-7,836,434,022.36	-2,897,876,450.75
Reduction of operational receivables	435,136,997.09	914,176,242.18

<b>1. Regulate net profit as operating activity cash flow:</b>	<b>2019</b>	<b>2018</b>
Increase in operational payables	7,199,442,177.19	2,522,862,705.41
Others		
<b>Net cash flow from operating activities</b>	<b><u>1,912,356,260.51</u></b>	<b><u>2,845,999,756.43</u></b>
<b>2. Major investment and fundraising activities that do not involve cash receipts and expenditures:</b>		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Finance leased fixed assets		
<b>3. Net changes in cash and cash equivalents:</b>		
Ending balance of cash	7,917,524,031.69	6,365,777,884.75
Less: Opening balance of cash	6,365,777,884.75	4,746,411,316.79
Plus: closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
<b>Net increase in cash and cash equivalents</b>	<b><u>1,551,746,146.94</u></b>	<b><u>1,619,366,567.96</u></b>

## (2) Cash and cash equivalents

Items	31-Dec-19	31-Dec-18
<b>I. Cash</b>	<b>7,917,524,031.69</b>	<b>6,365,777,884.75</b>
Inc: Cash in hand	33,372,126.40	34,787,860.11
Bank deposits that can be used for payment at any time	4,367,560,995.99	3,791,841,100.42
Other currency funds that can be used to pay at any time	3,516,590,909.30	2,539,148,924.22
Central bank deposits available for payment		
Inter-bank deposits		
Inter-bank offers		
<b>II. Cash equivalents</b>		
Inc: Bond investments due within three months		
<b>III. Balance of cash and cash equivalents at the end of the period</b>	<b><u>7,917,524,031.69</u></b>	<b><u>6,365,777,884.75</u></b>

Note: The limited monetary funds are RMB2,757,805,144.73 on Dec.31, 2019.

The details are as follows: Various types of margin deposits that could not be realized in the short-term are RMB794,776,174.59; The compensation and special subsidies for the demolition of households under supervision are RMB705,234.49; the pre-sale supervision funds and loan guarantee funds were RMB 1,419,977,658.66; the special construction funds were RMB161,274,708.92; deposit reserves in the People's Bank of China were RMB340,365,323.75; a special fund invested by the CDB were RMB18,955.69; and the mortgage, frozen mortgage, and other funds that changed the existing restrictions amounted to RMB 3,598,678.28; maintenance deposit were RMB37,088,410.35.

## Note 9 Equity in other entities

## 9.1 Subsidiaries

## 1. The composition of enterprise groups

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
1	Lushang Products Group Co., Ltd.	Jinan	Jinan	business	10,000.00	2	100.00		Investment establishment
2	Shandong Fuyuan Equity Investment holding Co., Ltd.	Jinan	Jinan	Investment and consultations so on	20,000.00	2	34.00		Investment establishment
3	Beijing Inzone Sozhen Culture and Arts Co., Ltd.	Beijing	Beijing	Art Investment	1,000.00	4		52.63	Investment establishment
4	Shandong Gao Le wine industry Co., Ltd.	Jinan	Jinan	Retail industry	1,000.00	4		100.00	Investment establishment
5	Shandong Silver Plaza Co., Ltd.	Jinan	Jinan	business	40,000.00	2	40.97		Investment establishment
6	Linqing Inzone Shopping Plaza Co., Ltd.	Linqing	Linqing	business	500.00	3		90.00	Investment establishment
7	Jinan Changqing Inzone Shopping Plaza Co., Ltd.	Jinan	Jinan	business	500.00	3		90.00	Investment establishment
8	Gaotang Inzone Shopping Plaza Co., Ltd.	Liaocheng	Liaocheng	business	500.00	3		90.00	Investment establishment
9	Shandong Yinzuo Logistics Co., Ltd.	Jinan	Jinan	Logistics and warehousing	3,000.00	3		90.00	Investment establishment
10	Qufu Inzone Distribution Co., Ltd.	Jining	Jining	Logistics and warehousing	3,000.00	3		100.00	Investment establishment
11	Shandong Inzone Advertising Co., Ltd.	Jinan	Jinan	Advertising	100.00	3		90.40	Investment establishment
12	Shandong Inzone Property Management Co., Ltd.	Jinan	Jinan	Property Management	300.00	3		33.33	Investment establishment
13	Shandong Inzone Jiuxin Real Estate Development Co., Ltd.	Jinan	Jinan	Real estate industry	3,333.00	3		50.00	Investment establishment
14	Shandong Unimart Commercial Co., Ltd.	Jinan	Jinan	business	6,000.00	3		45.00	Investment establishment
15	Shandong Inzone Distribution Co., Ltd.	Jinan	Jinan	Logistics and warehousing	2,500.00	3		100.00	Investment establishment
16	Shandong Yinzuo Electric Appliance Co., Ltd.	Jinan	Jinan	business	2,000.00	4		100.00	Investment establishment
17	Shandong Inzone Information Technology Co., Ltd.	Jinan	Jinan	business	4,000.00	3		90.00	Investment establishment
18	Taian Inzone Rest assured Breakfast Engineering Co., Ltd.	Taian	Taian	food processing	300.00	3		55.00	Investment establishment
19	Jinan Inzone Shopping Plaza Co., Ltd.	Jinan	Jinan	business	2,500.00	3		72.00	Investment establishment
20	Jinan Wanji Real Estate Co., Ltd.	Jinan	Jinan	Real estate industry	1,000.00	3		70.00	Investment establishment
21	Jinan Inzone North Park Shopping Plaza Co., Ltd.	Jinan	Jinan	business	1,000.00	3		89.80	Investment establishment
22	Pingyi Inzone Shopping Plaza Co., Ltd.	Pingyi	Pingyi	business	500.00	3		90.00	Investment establishment
23	Anqiu Inzone Shopping Mall Co., Ltd.	Anqiu	Anqiu	business	1,000.00	3		90.00	Investment establishment
24	Yantai Inzone Shopping Mall Co., Ltd.	Yantai	Yantai	business	1,000.00	3		90.00	Investment establishment
25	Liyang Inzone Shopping Mall Co., Ltd.	Fuyang	Fuyang	business	1,000.00	3		90.00	Investment establishment
26	Luoyang Inzone Shopping Mall Co., Ltd.	Luoyang	Luoyang	business	1,000.00	3		100.00	Investment establishment
27	Anyang Inzone Shopping Mall Co., Ltd.	Anyang	Anyang	business	1,000.00	3		100.00	Investment establishment

## SHANDONG COMMERCIAL GROUP CO., LTD.

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
28	Jinan Inzone Shopping Mall Co., Ltd.	Jinan	Jinan	business	1,000.00	3		90.00	Investment establishment
29	Hebi Inzone Shopping Mall Co., Ltd.	Hebi	Hebi	business	1,000.00	3		100.00	Investment establishment
30	Jining Inzone Shopping Plaza Co., Ltd.	Jining	Jining	business	1,500.00	3		90.00	Investment establishment
31	Jining Inzone Shopping Mall Co., Ltd.	Jining	Jining	business	1,000.00	3		90.00	Investment establishment
32	Laiwu Inzone Real Estate Co., Ltd.	Laiwu	Laiwu	Real estate industry	1,000.00	3		100.00	Investment establishment
33	Linyi Juyi Property Co., Ltd.	Linyi	Linyi	Real estate industry	5,000.00	3		98.00	Investment establishment
34	Rizhao Inzone Shopping Mall Co., Ltd.	sunshine	sunshine	business	1,000.00	3		90.00	Investment establishment
35	Tengzhou Inzone Shopping Mall Co., Ltd.	Tengzhou	Tengzhou	business	1,000.00	3		90.00	Investment establishment
36	Zaozhuang Inzone Shopping Mall Co., Ltd.	Zaozhuang	Zaozhuang	business	1,000.00	3		90.00	Investment establishment
37	Xingtai Inzone Shopping Mall Co., Ltd.	Xingtai	Xingtai	business	1,000.00	3		90.00	Investment establishment
38	Weifang Inzone Distribution Co., Ltd.	Lucheng	Lucheng	Other warehousing	3,000.00	4		100.00	Investment establishment
39	Inzone Cloud Life E-commerce Co., Ltd.	Jinan	Jinan	consultation service	10,000.00	3		70.00	Investment establishment
40	Shandong Inzone Yafengge catering management Co. Ltd	Jinan	Jinan	Accommodation and Catering Industry	1,000.00	3		40.00	Investment establishment
41	Shandong Inzone Intelligent science Co. Ltd	Jinan	Jinan	wholesale and retail	5,000.00	3		56.04	Investment establishment
42	Lushang Inzone Automobile Co., Ltd.	Jinan	Jinan	business	4,000.00	2	33.75		Investment establishment
43	Shandong Yinzuo Tianrui Automobile Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100.00	Investment establishment
44	Shandong Inzone Tiantong Automobile Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100.00	Investment establishment
45	Shandong Inzone Tianzun Automobile Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100.00	Investment establishment
46	Shandong Inzone Automobile Club Co., Ltd.	Jinan	Jinan	business	50.00	3		100.00	Investment establishment
47	Shandong Inzone Tianyi Automobile Co., Ltd.	Jinan	Jinan	business	2,000.00	3		100.00	Investment establishment
48	Shandong Inzone Motor Trade Co., Ltd.	Jinan	Jinan	business	1,700.00	3		100.00	Investment establishment
49	Shandong Inzone Tianfu Automobile Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100.00	Investment establishment
50	Shandong Inzone Tiansheng Automobile Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100.00	Investment establishment
51	Shandong Yinzuo Automobile Products Co., Ltd.	Jinan	Jinan	business	500.00	3		100.00	Investment establishment
52	Shandong Inzone Tiancheng Automobile Co., Ltd.	Jinan	Jinan	business	2,000.00	3		100.00	Investment establishment
53	Lushang Financing Guarantee Co., Ltd.	Jinan	Jinan	business	10,000.00	3		100.00	Investment establishment
54	Shandong Inzone Tianqi Real Estate Co., Ltd.	Jinan	Jinan	business	5,000.00	3		100.00	Investment establishment
55	Lushang (Tianjin) International Trade Co., Ltd.	Tianjin	Tianjin	business	2,000.00	3		51.00	Investment establishment
56	Shandong Lushang Used Car Trading Co., Ltd.	Jinan	Jinan	business	1,000.00	3		100.00	Investment establishment
57	Shandong Yinxin Auction Co., Ltd.	Jinan	Jinan	business	300.00	3		55.00	Investment establishment
58	INZONE TRADING GERMANY GMBH	Hamburg	Hamburg	business	2,006.28	3		100.00	Investment establishment

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
59	Lushang supply chain (Qingdao) Co., Ltd.	Qingdao	Qingdao	business	5,000.00	3		100.00	Investment establishment
60	Tai'an Inzone Real Estate Development Co., Ltd.	Tai'an	Tai'an	Real estate development	2,000.00	2	97.00	3.00	Acquire corporate merger under the same control
61	Dongying Inzone Real Estate Development Co., Ltd.	Dongying	Dongying	Real estate development	1,000.00	2	100.00		Acquire corporate merger under the same control
62	Jining Lushang Property Co., Ltd.	Jining	Jining	Real estate development	2,000.00	2	100.00		Investment establishment
63	Lushang Health Industry Development Co., Ltd.	Zibo	Zibo	Real estate development	100,096.80	2	53.02	1.72	Investment establishment
64	Beijing Inzone Hezhi Real Estate Development Co., Ltd.	Beijing	Beijing	Real estate development	2,000.00	3		100.00	Acquire corporate merger under the same control
65	Shandong Lushang Real Estate Co., Ltd.	Jinan	Jinan	Real estate development	5,000.00	3		100.00	Acquire corporate merger under the same control
66	Chongqing Lushang Real Estate Co., Ltd.	Chongqing	Chongqing	Real estate development	2,000.00	4		50.00	Acquire corporate merger under the same control
67	Qingdao Lushang Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	2,000.00	4		85.00	Acquire corporate merger under the same control
68	Linyi Lushang Real Estate Co., Ltd.	Linyi	Linyi	Real estate development	2,000.00	4		100.00	Acquire corporate merger under the same control
69	Shandong Lanan Garden Engineering Co., Ltd.	Jinan	Jinan	Landscaping pr	2,000.00	4		100.00	Acquire corporate merger under the same control
70	Shandong Lushang Property Services Co., Ltd.	Jinan	Jinan	Property Management	500.00	4		100.00	Acquire corporate merger under the same control
71	Lushang Real Estate Qingdao Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		75.00	Investment establishment
72	Qingdao Lushang Property Services Co., Ltd.	Qingdao	Qingdao	Property Management	50.00	4		100.00	Investment establishment
73	Shandong Anjie Electromechanical Engineering Co., Ltd.	Jinan	Jinan	Mechanical equipment installation	500.00	4		100.00	Investment establishment
74	Qingdao Lushang Xifu Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		85.00	Investment establishment
75	Shandong Lushang Jinlin Real Estate Development Co., Ltd.	Jinan	Jinan	Real estate development	20,000.00	4		100.00	Investment establishment
76	Liaoning Lushang Real Estate Co., Ltd.	Jinzhou	Jinzhou	Real estate development	5,000.00	4		80.00	Investment establishment
77	Harbin Lushang Real Estate Co., Ltd.	Harbin	Harbin	Real estate development	5,000.00	4		90.00	Investment establishment
78	Qingdao Lushang Lanan Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		100.00	Investment establishment
79	Jinan Lushang Special Door Industry Co., Ltd.	Jinan	Jinan	Production, sales and installation of special doors	500.00	4		60.00	Investment establishment
80	Tai'an Lushang Real Estate Co., Ltd.	Tai'an	Tai'an	Real estate development	5,000.00	4		100.00	Investment establishment
81	Qingdao Lushang Land Development Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		75.00	Investment establishment

## SHANDONG COMMERCIAL GROUP CO., LTD.

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
82	Shandong Lushang Architectural Design Co., Ltd.	Jinan	Jinan	architectural design	500.00	4		100.00	Investment establishment
83	Heze Lushang Real Estate Co., Ltd.	Heze	Heze	Real estate development	5,000.00	4		100.00	Investment establishment
84	Linyi Lushang Real Estate Co., Ltd.	Linyi	Linyi	Real estate development	2,000.00	4		51.00	Investment establishment
85	Jinan Lushang Mingda Doors And Windows Co., Ltd.	Jinan	Jinan	Building door and window processing, manufacturing, sales and installation	500.00	4		60.00	Investment establishment
87	Shandong Inzone Real Estate Co., Ltd.	Jinan	Jinan	Real estate development	7,628.00	3		100.00	Acquire corporate merger under the same control
87	Qingdao Inzone Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	2,000.00	4		100.00	Acquire corporate merger under the same control
88	Shandong Commercial Real Estate Development Co., Ltd.	Jinan	Jinan	Real estate development	3,640.00	3		100.00	Acquire corporate merger under the same control
89	Qingdao Xingzhou Shiyuan Property Co., Ltd.	Qingdao	Qingdao	Real estate development	2,000.00	4		75.00	Acquire corporate merger under the same control
90	Jining Lushang Real Estate Co., Ltd.	Jining	Jining	Real estate development	5,000.00	4		100.00	Investment establishment
91	Linyi Lushangjin Real Estate Co., Ltd.	Linyi	Linyi	Real estate development	5,000.00	4		65.00	Investment establishment
92	Taian Lushang Real Estate Co., Ltd.	Taian	Taian	Real estate development	5,000.00	4		100.00	Investment establishment
93	Lushun Freda Health Investment Co., Ltd.	Jinan	Jinan	Investment Management	5,000.00	3		70.00	Investment establishment
94	Qingdao Lushang Digital Technology Development Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		74.00	Investment establishment
95	Qingdao Lushang Kaitai Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		85.00	Investment establishment
96	Qingdao Lushang Jiahe Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development	5,000.00	4		80.00	Investment establishment
97	Jinan Lushang Jinlin Real Estate Development Co., Ltd.	Jinan	Jinan	Real estate development	5,000.00	4		100.00	Investment establishment
98	Yantai Lushang Real Estate Co., Ltd.	Yantai	Yantai	Real estate development	5,000.00	4		100.00	Investment establishment
99	Linyi Freda Health Investment construction Co., Ltd.	Linyi	Linyi	Investment in real estate and pension services, tourism services	4,100.00	4		24.39	Investment establishment
100	Qingdao Lushang Chuangzhi Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development and management	5,000.00	4		70.00	Investment establishment
101	Zibo Lushang Real Estate Co., Ltd.	Zibo	Zibo	Real estate development and management	5,000.00	4		91.00	Investment establishment
102	Qingdao Lushang Jinxiu Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development and management	5,000.00	4		70.00	Investment establishment
103	Weifang Lushang Real Estate Co., Ltd.	Weifang	Weifang	Real estate development and management	2,000.00	4		100.00	Investment establishment
104	Shanghai Lushang Real Estate Co., Ltd.	Shanghai	Shanghai	Real estate development and management	5,000.00	4		100.00	Obtaining a business combination not under the same control



## SHANDONG COMMERCIAL GROUP CO., LTD.

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
105	Linyi Lushang Real Estate Co., Ltd.	Linyi	Linyi	Real estate development and management	1,000.00	4		40.00	Investment establishment
106	Qingdao Lushang Langu Real Estate Co., Ltd.	Qingdao	Qingdao	Real estate development and management	2,000.00	4		95.00	Investment establishment
107	Qingdao Lvfu Real Estate development Co., Ltd.	Qingdao	Qingdao	Real estate development and management	33,300.00	4		69.97	Investment establishment
108	Jinan Furuida nursing home Co., Ltd.	Jinan	Jinan	Medical service, elderly nursing service	200.00	4		100.00	Investment establishment
109	Dongyue holding Co., Ltd.	Jinan	Jinan	Investment, Real estate development	10,000.00	3		34.00	Investment establishment
110	Shandong Freda Pharmaceutical Group Co., Ltd.	Jinan	Jinan	Pharmaceutical industry	8,100.00	3		100.00	Investment establishment
111	Shandong Freda Biological Engineering Co., Ltd.	Jinan	Jinan	Pharmaceutical industry	2,000.00	3		56.25	Investment establishment
112	Shandong Yi Lian Cosmetics Co., Ltd.	Jinan	Jinan	cosmetic	400.00	3		100.00	Investment establishment
113	Shandong Freda Biotechnology Co., Ltd.	Linyi	Linyi	Biotechnology	7,710.00	3		57.07	Investment establishment
114	Shandong Mingren Freda Hygienic Material Co., Ltd.	Jinan	Jinan	Pharmaceutical industry	1,068.80	4		80.00	Investment establishment
115	Jinan Kangzhuang Avenue Financing& Trading Co., Ltd.	Jinan	Jinan	business	10.00	3		100.00	Investment establishment
116	Hainan Ruilante Pharmaceutical Co., Ltd.	Haikou	Haikou	Pharmaceutical and medical equipment wholesale	200.00	4		100.00	Investment establishment
117	Shandong Mingren Freda Pharmaceutical Co., Ltd.	Jinan	Jinan	Pharmaceutical industry	7,000.00	3		60.71	Investment establishment
118	Shandong Freda Health Technology Co., Ltd.	Linyi	Linyi	consultation service	300.00	3		100.00	Investment establishment
119	Shandong Ningkang Financing& Trading Co., Ltd.	Jinan	Jinan	Food, health food, etc., wholesale and retail	300.00	3		100.00	Investment establishment
120	Shandong Dakang Financing& Trading Co., Ltd.	Jining	Jining	Prepackaged food, wholesale and retail	300.00	3		100.00	Investment establishment
121	Shandong Laikang Financing& Trading Co., Ltd.	Jining	Jining	Food, health food, etc., wholesale and retail	300.00	3		100.00	Investment establishment
122	Shandong Kangzhuang Dadao information science Co., Ltd.	Jining	Jining	Information technology development	300.00	4		100.00	Investment establishment
123	Shandong Jiexing Enterprise Management Co., Ltd.	Jinan	Jinan	Enterprise management consulting	7,200.00	3		80.00	Investment establishment
124	Jinan lumao Real Estate Co., Ltd.	Jinan	Jinan	Investment, real estate development	8,000.00	4		45.00	Investment establishment
125	Qingdao Lushang Blue Valley Health Industry Co., Ltd.	Qingdao	Qingdao	Health management consulting	5,000.00	4		64.00	Investment establishment
126	Qingdao Lushang Runzhi Investment Development Co., Ltd.	Qingdao	Qingdao	Investment, real estate development	120,000.00	4		58.00	Investment establishment
127	Yantai Jiexing Enterprise Management Co., Ltd.	Yantai	Yantai	Enterprise management consulting	26,640.00	3		95.14	Investment establishment
128	Yantai lumao Real Estate Co., Ltd.	Yantai	Yantai	Investment, real estate development	\$75 million	4		52.00	Investment establishment
129	Inzone Group Co., Ltd.	Jinan	Jinan	Retail industry	52,006.66	2	24.49	9.70	Investment establishment
130	Tai'an Inzone Shopping Mall Co., Ltd.	Tai'an	Tai'an	Retail industry	1,432.90	3		100.00	Investment establishment
131	Xintai Inzone Shopping Mall Co., Ltd.	Xintai	Xintai	Retail industry	500.00	4		100.00	Investment establishment

## SHANDONG COMMERCIAL GROUP CO., LTD.

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
132	Linyi Inzone Shopping Mall Co., Ltd.	Linyi	Linyi	Retail industry	22,124.50	3		100.00	Investment establishment
133	Qingzhou Inzone Shopping Mall Co., Ltd.	Qingzhou	Qingzhou	Retail industry	1,800.00	3		100.00	Investment establishment
134	Shandong Inzone Shopping Center Co., Ltd.	Jinan	Jinan	Retail industry	70,030.54	4		100.00	Investment establishment
135	Shandong Inzone Real Estate Co., Ltd.	Jinan	Jinan	Real estate industry	67,046.70	4		100.00	Investment establishment
136	Qingdao Inzone Investment Development Co., Ltd.	Qingdao	Qingdao	Real estate industry	20,000.00	3		100.00	Investment establishment
137	Baoding Inzone Shopping Mall Co., Ltd.	Baoding	Baoding	Retail industry	1,000.00	3		100.00	Investment establishment
138	Zhangjiakou Inzone Shopping Shopping Mall Co., Ltd.	Zhangjiakou	Zhangjiakou	Retail industry	1,000.00	3		100.00	Investment establishment
139	Dongying Inzone Shopping Mall Co., Ltd.	Dongying	Dongying	Retail industry	6,000.00	3		100.00	Corporate merger under the same control
140	Binzhou Inzone Shopping Mall Co., Ltd.	Binzhou	Binzhou	Retail industry	13,460.00	3		100.00	Corporate merger under the same control
141	Zibo Inzone Shopping Mall Co., Ltd.	Zibo	Zibo	Retail industry	5,000.00	3		100.00	Corporate merger under the same control
142	Inzone Group Dezhou City Mall Co., Ltd.	Texas	Texas	Retail industry	3,000.00	3		100.00	Business mergers not under common control
143	Inzone Group Linyi Huaxing Shopping Centre Co., Ltd.	Shandong	Shandong	Retail industry	101.00	3		70.00	Business mergers not under common control
144	Qingdao Ganhao Real Estate Development Co., Ltd.	Qingdao	Qingdao	Real estate industry	1,000.00	3		54.00	Business mergers not under common control
145	Weihai Hongtu Trade Co., Ltd.	Weihai	Weihai	Retail industry	8,000.00	3		100.00	Business mergers not under common control
146	Shijiazhuang Oriental City Plaza Co., Ltd.	Shijiazhuang	Shijiazhuang	Retail industry	14,500.00	3		55.14	Business mergers not under common control
147	Yinlong Business Management Consulting (Shanghai) Co., Ltd.	Shanghai	Shanghai	service industry	500.00	3		70.00	Investment establishment
148	Inzone Group Jinan Changqing Shopping Plaza Co., Ltd.	Jinan	Jinan	Retail industry	5,000.00	3		100.00	Investment establishment
149	Shandong Constellation Commercial Management Co., Ltd.	Jinan	Jinan	Service, retail industry	1,500.00	4		100.00	Investment establishment
150	Jinan Inzone Wanhong Square Co., Ltd.	Jinan	Jinan	Retail industry	500.00	3		100.00	Investment establishment
151	Lushang Group Co., Ltd.	Jinan	Jinan	Investment Management	42,300.00	2	50.33		Transfer
152	Shandong Tongli Business Management Co., Ltd.	Jinan	Jinan	Service industry	50.00	3		100.00	Investment establishment
153	Shandong Fuyuan Investment Co., Ltd.	Jinan	Jinan	investment	20,000.00	2	34.00		Investment establishment
154	France BENOIT MEYER Grape Plantation Agricultural Development Civil Corporation	France	France	Grape growing, wine sales	1.513 million euros	5		100.00	Investment establishment
155	Shandong Quancheng Hotel Co. Ltd	Jinan	Jinan	Accommodation and Catering Industry	500.00	2		100.00	Investment establishment
156	National Engineering Research	Jinan	Jinan	business	5,000.00	2	100.00		Investment establishment

## SHANDONG COMMERCIAL GROUP CO., LTD.

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
	Center for Agricultural Products Logistics								
157	Jinan Fuyuan Micro-credit Co., Ltd.	Jinan	Jinan	Financial industry	50,000.00	2	100.00		Investment establishment
158	Shandong Yongxing Group Co., Ltd.	Jinan	Jinan	business	13,585.86	2	67.00		Investment establishment
159	Shandong Yongxing Property Management Co., Ltd.	Jinan	Jinan	Service industry	300.00	3		100.00	Investment establishment
160	Taian Runyu E-Commerce Management Co., Ltd.	Taian	Taian	Mining equipment sales	100.00	3	20.00	80.00	Investment establishment
161	Shandong Runtai Business Management Co., Ltd.	Jinan	Jinan	Information consultation, house rental	725.41	3		100.00	Investment establishment
162	Shandong Chaoneng Freda Biotechnology Co., Ltd.	Jinan	Jinan	Biological Technology	5,000.00	3	10.00	90.00	Investment establishment
163	Shandong Lushang Logistics Technology Co., Ltd.	Jinan	Jinan	Logistics and warehousing	2,100.00	2	100.00		Investment establishment
164	Shandong Shangyuan Property Management Service Co., Ltd.	Jinan	Jinan	business	300.00	3		100.00	Investment establishment
165	Shandong Shangding Culture Communication Co., Ltd.	Jinan	Jinan	business	600.00	3		100.00	Investment establishment
166	Shandong Etone Development Group Co., Ltd.	Jinan	Jinan	Other financial industry	12,000.00	2	74.14		Investment establishment
167	Etone Payment Co., Ltd.	Jinan	Jinan	Other financial industry	10,000.00	3		100.00	Investment establishment
168	Etone Jinfu Payment Co., Ltd.	Jinan	Jinan	Prepaid cards, non-financial IC card development	30,000.00	3		100.00	Investment establishment
169	Shandong Inzone Industrial Co., Ltd.	Jinan	Jinan	business	2,000.00	3		100.00	Investment establishment
170	Shandong Yitong Commercial Factoring Co., Ltd.	Jinan	Jinan	Other financial industry	5,000.00	3		100.00	Investment establishment
171	Etone Financial Leasing (Tianjin) Co., Ltd.	Tianjin	Tianjin	Other financial industry	100,000.00	3		100.00	Investment establishment
172	Zhongyitong International Financial Leasing (Tianjin) Co., Ltd.	Tianjin	Tianjin	Other financial industry	25,000.00	3		75.00	Investment establishment
173	Shandong Etone Private capital management Co., Ltd.	Jinan	Jinan	Other financial industry	30,000.00	3		100.00	Investment establishment
174	Etone Insurance Economic Co., Ltd.	Jinan	Jinan	Other financial industry	5,000.00	3		100.00	Investment establishment
175	Shandong Yitong Commercial Factoring (Tianjin) Co., Ltd.	Tianjin	Tianjin	Other financial industry	5,000.00	3		100.00	Investment establishment
176	Kindergarten of Shandong Commercial Group Co., Ltd.	Jinan	Jinan	Early childhood education	30.00	2	100.00		Investment establishment
177	Shandong Yinzuo-Yingcai Kindergarten	Jinan	Jinan	Education and training	400.00	2	77.00		Investment establishment
178	Beijing Inzone Oriental Education Consultant Co., Ltd.	Beijing	Beijing	Education and training	60.00	3		60.00	Investment establishment
179	Qingdao City District, Yinzuo • Yingcai Four Seasons Garden Kindergarten	Qingdao	Qingdao	Early childhood education	50.00	3		100.00	Investment establishment
180	Yinzuo Yingcai yilongwan kindergarten, Liuqing street, Lanshan District, Linyi City	Linyi	Linyi	Early childhood education	3.00	3		100.00	Investment establishment
181	Yingzuo Yingcai Phoenix kindergarten, jinqueshan street, Lanshan District, Linyi City	Linyi	Linyi	Early childhood education	3.00	3		100.00	Investment establishment
182	Lingxiu Huacheng kindergarten, Kuiwen District, Weifang City	Weifang	Weifang	Early childhood education	3.00	3		100.00	Investment establishment
183	Lingshijun kindergarten, Zhoucun District, Zibo City	Zhoucun	Zhoucun	Early childhood education	3.00	3		100.00	Investment establishment

## SHANDONG COMMERCIAL GROUP CO., LTD.

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
184	Shandong Commercial Group Finance Co., Ltd.	Jinan	Jinan	Currency Financial Services	200,000.00	2	100.00		Investment establishment
185	Shandong Lushang Institute	Jinan	Jinan	Education and training	1,000.00	2	100.00		Investment establishment
186	Shandong Animal Husbandry and Industrial and Commerce General Corp.	Jinan	Jinan	Husbandry industry	3,175.00	2	100.00		Transfer
187	Lushang Equity Investment Fund Management Co., Ltd.	Chongqing	Chongqing	Equity Investment	1,000.00	3		75.00	Transfer
188	Shandong Lushang Equity Investment Fund Management Co., Ltd.	Jinan	Jinan	Equity investment fund management	3,000.00	4		100.00	Investment establishment
189	Jinan Mingerui Xiangkang Trading Co., Ltd.	Jinan	Jinan	Husbandry industry	100.00	3		100.00	Transfer
190	Shandong Mingda veterinary medicine Feed Co., Ltd.	Jinan	Jinan	Husbandry industry	600.00	3		100.00	Transfer
191	Weifang Lumu Mingda Trading Co., Ltd.	Jinan	Jinan	Husbandry industry	100.00	4		100.00	Transfer
192	Yantai Lumu Mingda Trading Co., Ltd.	Jinan	Jinan	Husbandry industry	100.00	4		100.00	Transfer
193	Shandong Luweisu Feed Co., Ltd.	Jinan	Jinan	Husbandry industry	300.00	4		100.00	Transfer
194	Shandong Inzone Green Home Furnishing Co., Ltd.	Jinan	Jinan	business	1,057.00	2	46.50		Acquire corporate merger under the same control
195	Zibo Inzone Green Home Furnishing Co., Ltd.	Zibo	Zibo	business	500.00	3		100.00	Investment establishment
196	Jining Inzone Green Home Co., Ltd.	Jining	Jining	business	500.00	3		100.00	Investment establishment
197	Linyi Inzone Green Home Furnishing Co., Ltd.	Linyi	Linyi	business	500.00	3		100.00	Investment establishment
198	Weihai Inzone Green Home Furnishing Co., Ltd.	Weihai	Weihai	business	500.00	3		100.00	Investment establishment
199	Binzhou Inzone Green Home Furnishing Co., Ltd.	Binzhou	Binzhou	business	500.00	3		100.00	Investment establishment
200	Shandong Inzone Leju daily life supplies Co., Ltd.	Jinan	Jinan	Retail industry	100.00	3		100.00	Acquire corporate merger under the same control
201	Heze Inzone Green Home Furnishing Co., Ltd.	Heze	Heze	Retail industry	500.00	3		100.00	Acquire corporate merger under the same control
202	Dongying Chuangzhan Real Estate Co., Ltd.	Dongying	Dongying	Retail industry	2,000.00	3		100.00	Acquire corporate merger under the same control
203	Shandong Inzone Green Home Furnishing Chain Management Co., Ltd.	Jinan	Jinan	Management and consultation	300.00	3		100.00	Acquire corporate merger under the same control
204	Laiwu Inzone Green Home Furnishing Co., Ltd.	Laiwu	Laiwu	Retail industry	500.00	3		100.00	Acquire corporate merger under the same control
205	Shandong Academy of Biomedical Sciences	Jinan	Jinan	Medical industry	22,005.00	2	Institution		Transfer
206	Shandong Business Daily	Jinan	Jinan	Publishing industry	1,520.75	3	24.05	54.25	Transfer
207	Lushang Media Group Co., Ltd.	Jinan	Jinan	Culture Media	2,550.00	4		51.00	Transfer
208	Shandong Runse Culture Media Co., Ltd.	Jinan	Jinan	Culture Media	350.00	5		70.00	Transfer
209	Jinan Itte Network Information Co., Ltd.	Lixia District	Lixia District	Internet service	100.00	4		90.00	Transfer

## SHANDONG COMMERCIAL GROUP CO., LTD.

	Name of company	Registered place	Main place of business	Nature of business	Registered capital (RMB10,000)	Grade	Group shareholding (%)		Acquisition Method
							Direct	Indirect	
210	Shandong sina tide Media Co., Ltd	Jinan	Jinan	Cultural and artistic exchange	400.00	5		100.00	Transfer
211	Shandong Commercial Group Corporation Staff Education and Training Center	Weihai	Weihai	Food Industry	134.00	2	Institution		Transfer
212	Qilu Medical University	Zibo	Zibo	Education industry	9,929.74	2	100.00		Investment establishment
213	Shandong Institute of Commerce and Technology	Jinan	Jinan	Education industry	18,969.70	2	Institution		Transfer
214	Shandong Shangyuan Economic and Trade Service Co., Ltd.	Jinan	Jinan	Retail industry	200.00	3		100.00	Investment establishment
215	Shandong Shangyuan Food Testing Co., Ltd.	Jinan	Jinan	Food Inspection Industry	1,000.00	3		100.00	Investment establishment
216	Qingdao Vocational and Technical College of Hotel Management	Qingdao	Qingdao	Education industry	13,144.00	2	Institution		Transfer
217	Shandong City Service Technician College	Yantai	Yantai	Hotel training	5,933.00	2	Institution		Transfer
218	Shandong Pharmaceutical Industry Designing Institute	Jinan	Jinan	business	868.00	2	Institution		Transfer
219	Shandong Province Yuemei Travel Automobile Company	Jinan	Jinan	business	2,495.70	2	100.00		Investment establishment
220	Shandong Air-conditioning Engineering Co., Ltd.	Jinan	Jinan	business	1,398.39	2	100.00		Investment establishment
221	Shandong Shunbo Equity Investment Management Co., Ltd.	Jinan	Jinan	Investment Management	3,000.00	2	60.00	40.00	Investment establishment
222	Shandong Cultural Tourism Development Group	Jinan	Jinan	Culture and Tourism	50,000.00	2	100.00		Investment establishment
223	Lushang Rural Development Group Co., Ltd	Jinan	Jinan	Tourism	10,000.00	3		100.00	Investment establishment
224	Shandong Rural Revitalization Qilu Model Research Institute Co., Ltd	Jinan	Jinan	Business	300.00	4		51.00	Investment establishment
225	Lushang jiunvfeng (Tai'an) Rural Revitalization Co., Ltd	Taian	Taian	Tourism	500.00	4		100.00	Investment establishment
226	Lushang Pusu (Tai'an) Cultural Tourism Development Co., Ltd	Taian	Taian	Culture and Tourism	500.00	4		30.00	Investment establishment
227	Shandong Lushang Dinghao Holding Co., Ltd	Jinan	Jinan	Business	1,000.00	4		50.00	Investment establishment
228	Lushang Guokun (Shandong) Land Development Co., Ltd	Jinan	Jinan	Business	2,000.00	4		48.00	Investment establishment
229	Taishanyou International Ecotourism Resort (Tai'an) Co., Ltd	Taian	Taian	Tourism	1,000.00	4		100.00	Investment establishment
230	Lushang cultural tourism development (Chongqing) Co., Ltd	Chongqing	Chongqing	Culture and Tourism	10,000.00	4		100.00	Investment establishment
231	Shandong culture and tourism scenic spot Investment Group Co., Ltd	Jinan	Jinan	Tourism	10,000.00	3		100.00	Investment establishment
232	Shandong Xintai red whistle Tourism Development Co., Ltd	Taian	Taian	Tourism	5,000.00	4		57.00	Investment establishment
233	Shandong Yinzuo Education Management Co., Ltd	Jinan	Jinan	Education	500.00	3		100.00	Investment establishment
234	Shandong Lushang Huashi Education Technology Development Co., Ltd	Jinan	Jinan	Education	500.00	3		100.00	Investment establishment
235	Shandong Hongtai Fuyuan Capital Management Co., Ltd	Jinan	Jinan	Investment manage	1,000.00	2	51.00		Investment establishment
236	Shandong Lushang Group Industrial Investment Co., Ltd	Jinan	Jinan	Investment manage	5,000.00	2	100.00		Investment establishment

## 2. Important non-wholly-owned subsidiaries

	Name	Minority shareholders' equity	Gain and loss attributable to minority shareholders for the current period	Accumulated minority shareholders' equity at the end of the period
1	Inzone Group Co., Ltd.	65.81%	34,756,228.76	2,030,410,744.67
2	Lushang Health Industry Development Co., Ltd.	45.26%	155,924,413.19	1,241,095,681.90

## 3. Major financial information of major non-wholly-owned subsidiaries (Unit: RMB)

Subsidiary	31-Dec-19					
	Current Assets	Non-current Assets	Total	Current Liability	Non-current Liability	Total
Inzone Group Co., Ltd.	2,942,377,317.60	8,019,100,243.34	10,961,477,560.94	7,209,058,678.18	518,907,869.01	7,727,966,547.19
Lushang Health Industry Development Co., Ltd.	54,393,253,106.34	1,626,191,794.94	56,019,444,901.28	47,480,122,525.04	3,843,674,218.78	51,323,796,743.82
Subsidiary	31-Dec-18					
	Current Assets	Non-current Assets	Total	Current Liability	Non-current Liability	Total
Inzone Group Co., Ltd.	4,181,590,611.14	8,327,177,688.75	12,508,768,299.89	8,718,038,259.75	579,183,385.70	9,297,221,645.45
Lushang Health Industry Development Co., Ltd.	47,387,131,765.90	1,491,208,201.98	48,878,339,967.88	40,020,523,209.33	5,968,955,613.82	45,989,478,823.15

(Continued)

Subsidiary	2019			
	Operating Revenue	Net profit	Total comprehensive income	Operating activities cash flow
Inzone Group Co., Ltd.	12,262,096,164.28	37,566,356.98	37,566,356.98	693,926,322.27
Lushang Health Industry Development Co., Ltd.	10,289,206,911.17	394,114,222.47	394,114,222.47	-3,307,182,480.93
Subsidiary	2018			
	Operating Revenue	Net profit	Total comprehensive income	Operating activities cash flow
Inzone Group Co., Ltd.	13,240,330,628.21	-734,329.34	-734,329.34	308,782,981.91
Lushang Health Industry Development Co., Ltd.	8,821,312,533.20	234,909,923.46	234,909,923.46	2,095,276,854.30

## 9.2 Equity in joint ventures or associates

## 1. Important joint venture or associates

Name	Main place of business	Registration Place	Nature of Business	Shareholding (%)		Accounting treatment method
				Direct	Indirect	

Name	Main place of business	Registration Place	Nature of Business	Shareholding (%)		Accounting treatment method
				Direct	Indirect	
Linyi Jinqin Real Estate Development Co., Ltd	Linyi, Shandong	B02-2318, Lushang center, Guangzhou road, Lanshan District, Linyi City, Shandong Province	Real estate development		45.00	Equity Method
Shandong Bausch & Fung Freda Pharmaceutical Co., Ltd.	Jinan, Shandong	No. 789, Xinluo street, Jinan hi tech Development Zone	Medical industry		30.00	Equity Method
Qilu Zhongtai Capital Management Co., Ltd.	Jinan, Shandong	Room 604, building 1, 877 Lijiang West Road, Huangdao District, Qingdao, Shandong Province	Investment Management		40.00	Equity Method
Shandong Riyu Food Co., Ltd.	Yantai, Shandong	No. 60, Huangshan Road, Yantai Economic and Technological Development Zone	Food production and processing	35.00		Equity Method

## 2. Major financial information of major associated companies (Unit: RMB)

I	Linyi Jinqin Real Estate Development Co., Ltd	
	31-Dec-19	31-Dec-18
Current Assets	5,191,997,123.99	3,704,487,442.87
Non-current Assets	640,177.39	7,432,647.98
<b>Total</b>	<b>5,192,637,301.38</b>	<b>3,711,920,090.85</b>
Current Liability	4,663,419,183.08	2,922,925,668.86
Non-current Liability	250,000,000.00	800,000,000.00
<b>Total</b>	<b>4,913,419,183.08</b>	<b>3,722,925,668.86</b>
Operating Income	1,023,695,055.65	812,567.68
Net Profit	290,223,696.31	-20,512,455.92
Total comprehensive income	290,223,696.31	-20,512,455.92

(Continued)

II	Shandong Bausch & Fung Freda Pharmaceutical Co., Ltd.	
	31-Dec-19	31-Dec-18
Current Assets	475,619,338.66	376,221,356.21
Non-current Assets	115,069,155.36	121,244,698.47
<b>Total</b>	<b>590,688,494.02</b>	<b>497,466,054.68</b>
Current Liability	291,322,171.83	230,055,217.86
Non-current Liability		
<b>Total</b>	<b>291,322,171.83</b>	<b>230,055,217.86</b>
Operating Income	592,810,215.65	508,060,739.72
Net Profit	136,671,157.46	109,336,441.93
Total comprehensive income	136,671,157.46	109,336,441.93

(Continued)



III	Qilu Zhongtai Capital Management Co., Ltd.	
	31-Dec-19	31-Dec-18
Current Assets	289,957,950.67	286,458,684.89
Non-current Assets	32,174,720.96	39,981,721.86
<b>Total</b>	<b>322,132,671.63</b>	<b>326,440,406.75</b>
Current Liability	10,133,399.75	6,732,053.08
Non-current Liability		
<b>Total</b>	<b>10,133,399.75</b>	<b>6,732,053.08</b>
Operating Income	27,316,838.38	35,444,406.80
Net Profit	5,965,027.73	18,294,376.79
Total comprehensive income	4,806,190.56	18,294,376.79

(Continued)

IV	Shandong Riyu Food Co., Ltd.	
	31-Dec-19	31-Dec-18
Current Assets	56,080,495.08	53,095,109.96
Non-current Assets	47,659,510.25	42,926,548.33
<b>Total</b>	<b>103,740,005.33</b>	<b>96,021,658.29</b>
Current Liability	26,088,194.31	23,274,950.74
Non-current Liability		
<b>Total</b>	<b>26,088,194.31</b>	<b>23,274,950.74</b>
Operating Income	114,190,391.34	110,147,532.55
Net Profit	4,905,103.47	2,583,094.01
Total comprehensive income	4,905,103.47	2,583,094.01

**Note 10 Related parties and related party transactions****10.1 Recognition criteria of related party relations**

According to the "Accounting Standards for Business Enterprises No. 36 - Related Party Disclosure", if one party controls, controls the other party jointly or exerts a significant influence on the other party, and the two parties or more than two parties are controlled, jointly controlled by one party, they will form related party relationships.

According to the "Measures for the Administration of Information Disclosure of Listed Companies" (China Securities Regulatory Commission Decree No. 40), related legal representative and associated natural persons in certain circumstances are also regarded as related parties.

**10.2 Related party relations****1. Parent and ultimate party**

The ultimate controller of the Company is Shandong Provincial State-owned Assets Supervision and Administration Commission.

**2. General information of subsidiaries**

Please refer to Note 7.

**3. Joint venture and associates**

None

**4. Related party transaction pricing principles**

The pricing method of transactions with related parties is based on market pricing, and the settlement method is consistent with non-related parties.

**5. Related party transaction**

None

**Note 11 Commitments**

None

**Note 12 Contingent events****12.1 Shandong Business Group Co., Ltd. : Major guarantees within and outside the group**

Unit: RMB 10,000

Loan Company (full name)	Amount	Loan Date	Expiry Date
Inzone Group Co., Ltd.	235,700.00	2019.03.01	2020.12.03
Shandong Silver Plaza Co., Ltd.	213,588.00	2019.01.08	2020.11.27
Linyi Juyi Property Co., Ltd.	46,075.00	2017.04.07	2023.09.01
Lushun Freda Health Investment Co., Ltd.	1,840.00	2016.06.24	2022.06.15
Qingdao Lushang Land Development Co., Ltd.	34,000.00	2018.04.25	2021.04.24
Qingdao Lushang Lanan Real Estate Co., Ltd.	40,470.00	2017.09.15	2020.04.03
Jining Lushang Real Estate Co., Ltd.	26,938.00	2017.08.04	2020.10.09
Linyi Lushang Real Estate Co., Ltd.	76,069.00	2015.10.10	2020.10.09
Linyi Lushangjin Real Estate Co., Ltd.	44,310.00	2016.12.16	2021.12.15
Lushang Real Estate Qingdao Co., Ltd.	94,000.00	2018.04.04	2020.04.04
Qingdao Lushang Jinxiu Real Estate Co., Ltd.	68,000.00	2018.04.28	2021.04.18
Yantai Lushang Real Estate Co., Ltd.	100,000.00	2018.10.30	2021.10.29
Shandong Freda Pharmaceutical Group Co., Ltd.	38,540.00	2018.04.28	2021.04.28
Shandong Inzone Tianyi Automobile Co., Ltd.	4,000.00	2019.08.22	2020.09.06
Etone Jinfu Payment Co., Ltd.	32,440.00	2018.05.04	2021.05.31
Shandong Etone Development Group Co., Ltd.	14,848.00	2018.07.31	2020.07.31

Qilu Medical University	27,770.00	2018.08.01	2028.04.21
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## 12.2 Shandong Commercial Group Finance Co., Ltd.

The company's external guarantees are as follows at December 31, 2019.

Subject	Type	Guarantee	Loan Bank	Maximum amount of guarantee (RMB10,000)	Actual amount of guarantee (RMB10,000)	Guarantee Method	Guarantee Date	Expiry Date
Shandong Commercial Group Finance Co., Ltd.	Loan	Shandong Business Group Co., Ltd.	INDUSTRIAL BANK CO.LTD. Jinan Branch		12,000.00	Pledge	2019-7-19	2022-7-19
Shandong Commercial Group Finance Co., Ltd.	Loan	Shandong Inzone Shopping Center Co., Ltd.	Huaxia Bank Huaiyin sub Branch		9,940.00	General guarantee	2019-8-21	2020-8-21
<b>Total</b>					21,940.00			

## 12.3 Lushang Health Industry Development Co., Ltd.

1. The real estate subsidiaries provide mortgage loan guarantee for the purchaser of the commodity housing by real estate operation convention. As at December 31, 2019, the amount guaranteed by real estate subsidiaries is RMB127,694,542.15.

### 2. Assets mortgage

The development projects assets which are mortgaged for the bank loans at the end of the report period are as follows:

Category	Project name	Mortgage amount
Development costs and products	Qingdao Lushang Lanan mansion project	2,324,630,181.09
	Lushang, Olympic City project	353,856,128.65
	Qingdao Lushang, Shoufu project	1,328,226,540.00
	Qingdao Lanan Lishe project	1,960,177,376.62
	Weifang Lushang, Shoufu project	314,310,208.23
	Linyi Lushang Centre project	669,025,755.54
	Linyi Zhichun Lake project	215,000,000.00
	Lushang, Lanan New City project	833,781,401.34
	Jining Canal mansion project	508,247,124.22
	Lushang, Jinyue City project	172,483,101.78
	Heze Lushang Phoenix Project	492,774,579.66
	Qingdao Central Mansion	510,482,023.84
	Zibo Lushang Center	797,828,177.78
	Lushang Songjiang New Town Project	844,810,067.36
	Yantai Lushang mansion project	790,570,000.00
Fixed assets	Pullman Linyi Lushang Hotel	356,890,719.94
Fixed assets	Biological Technology Linshu State use	12,022,013.68

Category	Project name	Mortgage amount
	(2012) Real Estate NO.43	
Intangible assets	Pullman Linyi Lushang Hotel	23,774,992.17
Intangible assets	Biological Technology Linshu State use (2012) Land NO.43	3,405,373.36

#### 12.4 Inzone Group Co., Ltd.

1. In the case of the dispute over the house lease contract between Dongying Inzone Shopping Mall Co., Ltd., a subsidiary of the Company, and Dongying Chang'an Real Estate Development Co., Ltd., *the civil judgment of the Intermediate People's Court of Dongying City, Shandong Province [(2019)Lu05 Minchu No.507]* ruled that the lease contract signed by and between Dongying Chang'an Real Estate Development Co., Ltd. and Dongying Inzone Shopping Mall Co., Ltd. on August 23, 2014 was terminated from the date of making this judgment, and Dongying Inzone Shopping Mall Co., Ltd. paid rent, liquidated damages, compensation and case acceptance fees to Dongying Chang'an Real Estate Development Co., Ltd. totaling RMB49,611,262.67. Based on the principle of prudence, the company confirmed the expected losses and expenses for the above rent, liquidated damages, compensation and case acceptance fees in 2019. Dongying Inzone Shopping Mall Co., Ltd. and Dongying Chang'an Real Estate Development Co., Ltd. both refused to accept *the civil judgment of the Intermediate People's Court of Dongying City, Shandong Province [(2019)Lu05 Minchu No.507]* and appealed according to law. Dongying Inzone Shopping Mall Co., Ltd. received the summons served by the Higher People's Court of Shandong Province on March 26, 2020.

2. In the case of dispute over the house lease contract between Tancheng branch of Linyi Inzone Shopping Mall Co., Ltd., branch of subsidiary, and Tancheng Hongda Real Estate Development Co., Ltd., *the civil judgment of the People's Court of Tancheng County, Shandong Province [(2019)Lu1322 Minchu No.4194]* ruled that the lease contract signed by and between Tancheng Hongda Real Estate Development Co., Ltd. and Linyi Inzone Shopping Mall Co., Ltd. was terminated on June 24, 2019, and the occupation fee for the period from the next day (i.e. June 25, 2019) after the termination of the lease contract to the date of actual return of the leased house and site was paid. In January 2020, Tancheng

Hongda Real Estate Development Co., Ltd. sued Linyi Inzone Shopping Mall Co., Ltd. and Tancheng branch of Linyi Inzone Shopping Mall Co., Ltd. for liquidated damages. As of the report date, the case is under trial.

#### **Note 13 Events After the balance sheet date**

##### **13. 1 Lushang Health Industry Development Co.,Ltd.**

###### **1. Profit distribution**

Proposed dividend	profit or	On April 9, 2020, the board of directors of the Company approved the profit distribution plan of 2019. Based on the total capital stock of 1,000,968,000 shares on December 31, 2019, the Company distributed cash dividend of RMB1.10 (including tax) to all shareholders for every 10 shares, with a total dividend of RMB110,106,480.00. The above plan shall be submitted to the general meeting of shareholders for deliberation and approval before implementation.
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###### **2. Notes to other events after the balance sheet date**

(1) Lushang Health Industry Development Co.,Ltd. (hereinafter referred to as "the company") held the 16th interim meeting of the 10th board of directors in 2019 on December 19, 2019, at which the proposal on the acquisition of 60.11% equity of Shandong focus Biotechnology Co., Ltd. was fully approved. The company acquired 4,521,100.00 shares, 1,115,000.00 shares, 447,600.00 shares, 403,400.00 shares and 4,316,800.00 shares of Shandong focus Biotechnology Co., Ltd. (hereinafter referred to as "focus biology") held by Liu Lei, Quyuan, Li Qing, Yang Bo and Suzhou Guangzheng Yihong equity investment partnership (limited partnership) in cash. According to the agreement on transfer, the industrial and commercial change will be completed on January 8, 2020, and the payment of all the price of share transfer will be completed on February 27, 2020. The merger of Shandong focus Biotechnology Co., Ltd. not under the same control will be completed.

(2) Since the outbreak of SARS-CoV-2 infection in China in January 2020, the prevention and control of pneumonia has been carried out nationwide. The company actively responds to and strictly implements the regulations and requirements of the party and the government at all levels on the prevention and control of pneumonia. In order to ensure both epidemic prevention and production, the company and its subsidiaries have returned to work in succession to support the national war epidemic in many ways, including supply security, social responsibility and internal management. The company expects that the pneumonia epidemic and prevention and control measures will have a

certain temporary impact on the production and operation of the company, and the degree of impact will depend on the progress and duration of the epidemic prevention and control as well as the implementation of prevention and control policies in various regions.

The company will continue to pay close attention to the development of pneumonia, evaluate and actively respond to its impact on the company's financial situation, operating results and other aspects. As of the date of this report, the assessment is still in progress.

### 13.2 Inzone Group Co., Ltd.

#### 1. Profit distribution

Proposed profit or dividend	18,202,330.62
Profits or dividends declared to be distributed after deliberation and approval	To be deliberated at the 2019 general meeting of shareholders

The sixth meeting of the 12th board of directors was held on April 8, 2020, at which the profit distribution plan for 2019 was approved: based on the total share capital of 520,066,589.00 shares on December 31, 2019, the Company plans to distribute cash dividends of RMB 0.35 (including tax) per 10 shares to all shareholders, totaling RMB 18,202,330.62. After profit distribution, the remaining undistributed profits (parent company) of RMB 184,943,932.61 will be carried forward to the next year.

The proposal still needs to be submitted to the 2019 general meeting of shareholders for deliberation and approval.

#### 2. Important non adjustment matters

Since the outbreak of the epidemic, according to the unified deployment of the government and relevant departments, the company has actively done a good job in the prevention and control of the epidemic to ensure the adequate supply of people's livelihood materials. At the same time, the department stores and shopping centers of the company affected by the epidemic were temporarily closed from the end of January to the beginning of March, and the supermarkets shortened their business hours, resulting in a significant decline in passenger flow and customer unit price, and a large decline in sales, which had a great impact on the operation of the company. The impact of the event on the company's

operation, financial status and annual operating performance will be reassessed according to the actual situation.

#### Note 14 Other important issues

##### Inzone Group Co., Ltd.

As at December 31, 2019, the total minimum rental payments of the company and subsidiaries is 4,452.9393 million yuan.

#### Note 15 Notes of parent company

##### 15.1 Other Receivables

Items	31-Dec-19	31-Dec-18
Interest receivable		
Dividend receivable	45,720,163.59	76,900,013.00
Other receivables	26,496,847,864.97	26,953,257,844.21
<b>Total</b>	<b><u>26,542,568,028.56</u></b>	<b><u>27,030,157,857.21</u></b>

##### (1) Dividend receivable

Name	31-Dec-19	31-Dec-18	Year of Debt
Shandong Business Daily	2,854,964.60	2,854,964.60	7 years
Lushang Real Estate Qingdao Co., Ltd.	5,000,000.00	40,000,000.00	2-6 years
Jinan Fuyuan Micro-credit Co., Ltd.	30,224,897.81	30,224,897.81	1-2 years
Shandong Inzone Group Co., Ltd.	7,640,301.18	3,820,150.59	Within 1 year, 1-2 years
<b>Total</b>	<b><u>45,720,163.59</u></b>	<b><u>76,900,013.00</u></b>	

##### (2) Other receivables

Category	31-Dec-19		31-Dec-18	
	Amount	Bad debt	Amount	Bad debt
Individually significant and subject to separate provision				
Items as a credit risk collective group	26,623,197,601.89	126,349,736.92	27,116,386,202.75	163,128,358.54
Individually insignificant but provision for bad debts individually				
<b>Total</b>	<b><u>26,623,197,601.89</u></b>	<b><u>126,349,736.92</u></b>	<b><u>27,116,386,202.75</u></b>	<b><u>163,128,358.54</u></b>

##### 1) Items as a credit risk collective group

Items provided for using an aging analysis as a collective group are as follows:

Aging	31-Dec-19	31-Dec-18
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	Amount	Proportion (%)	Bad debt	Amount	Proportion (%)	Bad debt
Within one year	27,778,049.69	15.53	2,777,804.97	30,873,460.14	12.61	3,087,346.01
1-2 year	26,706,364.84	14.93	10,682,545.94	67,884,193.00	27.73	27,153,677.20
2-3 year	57,687,670.05	32.24	46,150,136.04	65,860,473.83	26.90	52,688,379.06
Over 3 years	66,739,249.97	37.30	66,739,249.97	80,198,956.26	32.76	80,198,956.26
<b>Total</b>	<b>178,911,334.55</b>	<b>100.00</b>	<b>126,349,736.92</b>	<b>244,817,083.23</b>	<b>100.00</b>	<b>163,128,358.54</b>

Items provided for using other analysis as a collective group are as follows:

Group name	31-Dec-19			31-Dec-18		
	Amount	Provision rate (%)	Bad debt	Amount	Provision rate (%)	Bad debt
Related parties	26,444,286,267.34			26,871,569,119.52		
<b>Total</b>	<b>26,444,286,267.34</b>			<b>26,871,569,119.52</b>		

There are no receivables to shareholders who hold 5% or more voting shares at the balance sheet date.

## 15.2 Long-term equity investments

### (1) General Categories

Items	31-Dec-19	31-Dec-18
Long-term equity investment	7,111,736,260.72	5,981,578,366.59
Long-term equity investment impairment provisions	55,750,953.31	62,573,853.31
Net long-term equity investments	<u>7,055,985,307.41</u>	<u>5,919,004,513.28</u>

### (2) Major long-term equity investments accounted for by cost method

Company	Cost	31-Dec-18	Increase	Decrease	31-Dec-19
Shandong Commercial Group Finance Co., Ltd.	2,151,665,490.23	1,151,665,490.23	1,000,000,000.00		2,151,665,490.23
Lushang Health Industry Development Co., Ltd.	1,530,188,887.96	1,530,188,887.96			1,530,188,887.96
Shandong Etone Development Group Co., Ltd.	595,000,000.00	595,000,000.00			595,000,000.00
Jinan Fuyuan Micro-credit Co., Ltd.	500,000,000.00	500,000,000.00			500,000,000.00

## SHANDONG COMMERCIAL GROUP CO., LTD.

Company	Cost	31-Dec-18	Increase	Decrease	31-Dec-19
Inzone Group Co., Ltd.	306,568,459.16	306,568,459.16			306,568,459.16
Shandong Silver Plaza Co., Ltd.	278,547,788.31	275,555,203.31	2,992,585.00		278,547,788.31
Shandong Yongxing Group Co., Ltd.	233,854,798.68	233,854,798.68			233,854,798.68
Lushang Group Co., Ltd.	222,795,790.58	222,795,790.58			222,795,790.58
Shandong Cultural Tourism Development Group	220,000,000.00		220,000,000.00		220,000,000.00
Qilu Medical University	152,356,599.08	152,556,599.08			152,556,599.08
Great Wall Qilu Restaurant Investment Management Co., Ltd.	100,000,000.00	100,291,490.56			100,291,490.56
Tai'an Inzone Real Estate Development Co., Ltd.	90,711,690.05	90,711,690.05			90,711,690.05
Lushang Products Group Co., Ltd.	90,000,000.00	90,000,001.00			90,000,001.00
Jining Lushang Property Co., Ltd.	81,348,399.51	81,348,399.51			81,348,399.51
Shandong Province Travel Automobile Company	69,813,600.00	69,813,600.00			69,813,600.00
Dongying Inzone Real Estate Development Co., Ltd.	64,028,202.01	64,028,202.01			64,028,202.01
Shandong Vocational College of Commerce	56,000,000.00	56,000,000.00			56,000,000.00
Shandong Fuyuan Investment Co., Ltd.	54,909,374.27	54,909,374.27			54,909,374.27
National Engineering Research Center for Agricultural Products Logistics	50,000,000.00	50,000,000.00			50,000,000.00
Shandong Animal Husbandry and Industrial and Commerce General Corp.	43,561,170.16	43,561,170.16			43,561,170.16
Hainan Renfa Company	34,900,000.00	34,900,000.00			34,900,000.00
Dongyue holding Co., Ltd.	33,000,000.00		33,000,000.00		33,000,000.00
Shandong Lushang Logistics Technology Co., Ltd.	21,510,700.00	16,800,000.00	4,710,700.00		21,510,700.00
Shandong Shunbo Equity Investment	18,000,000.00	18,000,000.00			18,000,000.00

## SHANDONG COMMERCIAL GROUP CO., LTD.

Company	Cost	31-Dec-18	Increase	Decrease	31-Dec-19
Management Co., Ltd.					
Lushang Inzone Automobile Co., Ltd.	13,500,000.00	13,500,000.00			13,500,000.00
Shandong Bohai Hotel Co., Ltd.	11,922,400.00	11,922,400.00			11,922,400.00
Shandong Fuyuan Investment holding Co., Ltd.	10,200,000.00	10,200,000.00			10,200,000.00
Shandong Inzone Shengyang Logistics Center Co., Ltd.	10,000,000.00	10,000,000.00			10,000,000.00
Shandong Lushang Institute	10,000,000.00	10,000,000.00			10,000,000.00
Shandong Academy of Biomedical Sciences	7,000,000.00	7,000,000.00			7,000,000.00
Shandong Lushang Group Industrial Investment Co., Ltd	7,000,000.00		7,000,000.00		7,000,000.00
Shandong Yinzuo-Yingcai Kindergarten	3,426,800.00	3,426,800.00			3,426,800.00
Shandong Business Daily Electronic Audiovisual Publishing House	3,000,000.00	3,000,000.00			3,000,000.00
Shandong Hongtai Fuyuan Capital Management Co., Ltd	1,530,000.00		1,530,000.00		1,530,000.00
Shandong Business Daily	1,416,500.00	1,416,500.00			1,416,500.00
Shandong Daily Industrial Products Company	1,400,000.00	1,400,000.00			1,400,000.00
Shandong Commercial Materials Corporation	1,200,000.00	1,200,000.00			1,200,000.00
Shandong Commercial Group Asset Management Center	1,000,000.00	1,000,000.00			1,000,000.00
Shandong Commercial Group Weihai Company	700,000.00	700,000.00			700,000.00
Shandong Commercial Development Corporation	500,000.00	500,000.00			500,000.00
Shandong Commercial Supply and	500,000.00	500,000.00			500,000.00

Company	Cost	31-Dec-18	Increase	Decrease	31-Dec-19
Marketing Company					
Shandong Commercial Design Institute	328,553.31	328,553.31			328,553.31
Shandong Zhongwei International Trade Co., Ltd.	300,000.00	300,000.00			300,000.00
Kindergarten of Shandong Commercial Group Co., Ltd.	300,000.00	300,000.00			300,000.00
Hong Kong Yuchuan company	81,430.00	81,430.00			81,430.00
Shandong Yinzuo Cultural Industry Development Co., Ltd.	1.00	1.00			1.00
Shandong spring city Hotel Co., Ltd.	1.00	1.00			1.00
Lushang Media Group Co., Ltd.	22,500,000.00	33,969,277.08		33,969,277.08	
Jinan Inzone Orson Thermal Power Co., Ltd.	6,822,900.00	6,822,900.00		6,822,900.00	
Shandong Lushang rural revitalization Co. Ltd.	100,000,000.00	100,000,000.00		100,000,000.00	
<b>Total</b>	<u>7,213,389,535.31</u>	<u>5,956,117,018.95</u>	<u>1,269,233,285.00</u>	<u>140,792,177.08</u>	<u>7,084,558,126.87</u>

## (3) Long-term equity investments calculated by the equity method

Company	Cost	31-Dec-18	Increase	Decrease	31-Dec-19
Shandong Riyu Food Co., Ltd.	6,419,967.10	25,461,347.64	1,716,786.21		27,178,133.85
Shandong Dongfang Sugar Industry Co., Ltd.	6,000,000.00				
<b>Total</b>	<u>12,419,967.10</u>	<u>25,461,347.64</u>	<u>1,716,786.21</u>		<u>27,178,133.85</u>

## (4) Long-term equity investments impairment provisions

Items	31-Dec-18	Increase	Decrease		31-Dec-19
			Amount	Reason	
Hainan Renfa Company	34,900,000.00				34,900,000.00
Shandong Bohai Hotel Co., Ltd.	11,922,400.00				11,922,400.00
Shandong Business Daily Electronic Audiovisual Publishing House	3,000,000.00				3,000,000.00
Shandong Daily Industrial Products Company	1,400,000.00				1,400,000.00
Shandong Province Commercial Material Co., Ltd.	1,200,000.00				1,200,000.00
Shandong Commercial Group Asset Management Center	1,000,000.00				1,000,000.00

Items	31-Dec-18	Increase	Decrease		31-Dec-19
			Amount	Reason	
Shandong Commercial Group Weihai Company	700,000.00				700,000.00
Shandong Commercial Development Corporation	500,000.00				500,000.00
Shandong Commercial Supply and Marketing Company	500,000.00				500,000.00
Shandong Commercial Design Institute	328,553.31				328,553.31
Shandong Zhongwei International Trade Co., Ltd.	300,000.00				300,000.00
Jinan Inzone Orson Thermal Power Co., Ltd.	6,822,900.00		6,822,900.00	Transfer	
<b>Total</b>	<b>62,573,853.31</b>		<b>6,822,900.00</b>		<b>55,750,953.31</b>

### 15.3 Investment income

Items	31-Dec-19	31-Dec-18
I .Gains in trading financial assets(loss is marked with "-")	2,930,474.10	381,868.94
II .long-term equity investment income	444,905,466.96	111,005,023.69
Inc: disposal income of equity investment (loss is marked with "-")	268,783,457.92	
III. Gains in available-for-sale financial assets	6,120,000.00	
IV.Others		-15,500.00
<b>Total</b>	<b>453,955,941.06</b>	<b>111,371,392.63</b>

### 15.4 Supplementary cash flow statement

#### (1) Regulate net profit as net flow from operating activities

Items	31-Dec-19	31-Dec-18
<b>1. Regulate net profit as operating activity cash flow:</b>		
Net profit	53,179,410.01	-419,551,275.43
Add: asset impairment	49,318,561.77	74,795,869.36
Depreciation of fixed assets, loss of oil and gas assets, and depreciation of productive biological assets	407,781.87	726,892.39
Amortization of intangible assets	70,699.81	160,390.82
Amortization of long-term deferred expenses	24,177,627.89	1,259,120.61
Loss of disposal of fixed assets, intangible assets and other long-term assets	332,235.65	1,914.50
Loss of retirement of fixed assets		
Loss of fair value change	-24,169,830.86	-5,288,700.67
Financial expenses	1,778,094,683.85	1,486,358,670.26
Loss of investment	-453,955,941.06	-111,371,392.63

Items	31-Dec-19	31-Dec-18
Deferred income tax assets decreased		
Deferred income tax liabilities increase	7,144,840.81	32,406,367.37
Reduction of inventory		
Reduction of operational receivables	484,124,457.28	-2,553,656,841.92
Increase in operational payables	-185,487,650.19	974,008,297.30
Others		
<b>Net cash flow from operating activities</b>	<b><u>1,733,236,876.83</u></b>	<b><u>-520,150,688.04</u></b>
<b>2. Major investment and fundraising activities that do not involve cash receipts and expenditures:</b>		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Finance leased fixed assets		
<b>3. Net changes in cash and cash equivalents:</b>		
Ending balance of cash	1,081,647,566.37	1,595,810,964.53
Less: Opening balance of cash	1,595,810,964.53	971,984,504.88
Plus: closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
<b>Net increase in cash and cash equivalents</b>	<b><u>-514,163,398.16</u></b>	<b><u>623,826,459.65</u></b>

## (1) Cash and cash equivalents

Items	31-Dec-19	31-Dec-18
I. Cash	1,081,647,566.37	1,595,810,964.53
Inc: cash in hand	612.50	2,112.50
Bank deposits that can be used for payment at any time	1,080,353,386.24	1,595,069,922.54
Other currency funds that can be used to pay at any time	1,293,567.63	738,929.49
□.cash		
III. Balance of cash and cash equivalents at the end of the period	<u>1,081,647,566.37</u>	<u>1,595,810,964.53</u>

**Note 16 Approval of consolidated financial statements**

The above consolidated financial statements have been approved and reported by the Group on April 29, 2020.

SHANDONG COMMERCIAL GROUP CO., LTD.

April 29, 2020



The notes to the financial statements above are signed by the following responsible persons:

Legal Representative:

Stamp:



Date:

Accountant in Charge:

Stamp:



Date:

Head of Accounting Body:

Stamp:



Date:



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 Consolidated Financial Statements*

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