

ZHEJIANG KAISHAN  
COMPRESSOR CO., LTD.  
AUDITOR'S REPORT FOR THE YEAR  
ENDING DECEMBER 31, 2020

## Contents

I. Auditor's Report .....	Page 1-9
II. Financial Statements .....	Page 10-21
(I) Consolidated Balance Sheet .....	Page 10-11
(II) Parent Company Balance Sheet .....	Page 12-13
(III) Consolidated Income Statement .....	Page 14
(IV) Parent Company Income Statement .....	Page 15
(V) Consolidated Cash Flow Statement .....	Page 16
(VI) Parent Company Cash Flow Statement .....	Page 17
(VII) Consolidated Statement of Changes in Equity .....	Page 18-19
(VIII) Parent Company Statement of Changes in Equity .....	Page 20-21
III. Notes to Financial Statements .....	Page 22-101

## Auditor's Report

PCCPAAR [2021] No. 2578

To the Shareholders of Zhejiang Kaishan Compressor Co., Ltd.:

### I. Audit Opinion

We have audited the accompanying financial statements of Zhejiang Kaishan Compressor Co., Ltd. (the "Company"), which comprise the consolidated and parent company balance sheets as at December 31, 2020, the consolidated and parent company income statements, the consolidated and parent company cash flow statements, and the consolidated and parent company statements of changes in equity for the year then ended, as well as notes to financial statements.

In our opinion, the attached financial statements present fairly the financial position of the Company as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

### II. Basis for Audit Opinion

We conducted our audit in accordance with the China Standards on Auditing. Our responsibilities under those standards are further described in the Certified Public Accountant's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the China Code of Ethics for Certified Public Accountants, and we have fulfilled other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### III. Key Audit Matters

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

#### (I) Impairment of accounts receivable

##### 1. Key audit matters

Please refer to section III (X) and V (I) 3 of the notes to the financial statements for details.

As of December 31, 2020, the book balance of accounts receivable amounted to 720.46 million yuan, with provision for bad debts of 159.58 million yuan, and the carrying amount amounted to 560.88 million yuan.

Based on credit risk features of accounts receivable, the Company's management (the "Management") measures the provision for bad debts at the amount of expected credit losses, either on an individual basis or on a collective basis. For accounts receivable with expected credit losses measured on an individual basis, the Management estimates the expected cash flows, so as to identify the provision for bad debts to be accrued, based on a comprehensive consideration of information with reasonableness and evidence, which is related to the past events, the current situation and the forecast of future economic conditions. For accounts receivable with expected credit losses measured on a collective basis, the Management classifies portfolios on the basis of ages, adjusts them based on historical credit risk loss experience and forward-looking estimations, prepares the comparison table of ages and expected credit loss rate of accounts receivable, so as to calculate the provision for bad debts to be accrued.

As the amount of accounts receivable is significant and the impairment involves significant judgment of the Management, we have identified impairment of accounts receivable as a key audit matter.

## 2. Responsive audit procedures

Our main audit procedures for impairment of accounts receivable are as follows:

(1) We obtained understandings of key internal controls related to impairment of accounts receivable, assessed the design of these controls, determined whether they had been effectively implemented and tested the effectiveness of their operation;

(2) We reviewed the accounts receivable with provision for bad debts made in previous periods for their subsequent write-off or reversal, and assessed the accuracy of historical estimations made by the Management;

(3) We reviewed the consideration of the Management on credit risk assessment and objective evidence, and assessed whether the credit risk features of accounts receivable had been appropriately identified by the Management;

(4) For accounts receivable with expected credit losses measured on an individual basis, we obtained and checked the Management's estimations on the expected future cash flows, assessed the reasonableness of key assumptions and the accuracy of data adopted in the estimations and checked them with acquired external evidence;

(5) For accounts receivable with expected credit losses measured on a collective basis, we assessed the reasonableness of portfolio classification on the basis of credit risk features; we assessed the reasonableness of the comparison table of ages and expected credit loss rate of accounts receivable prepared by the Management with historical credit loss experience of portfolios with similar credit risk features and forward-looking estimations; we tested the accuracy and completeness of data used by the Management (including ages, historical loss rate, etc.) and whether the calculation of provision for bad debts was accurate;

(6) We checked the subsequent collection of accounts receivable and assessed the reasonableness of provision for bad debts made by the Management;

(7) We obtained understandings of the Company's client credit policy and actual implementation based on the contracts entered into between the Company and its main clients;

(8) We analyzed the main reasons for balances of accounts receivable due from main clients based on relevant records and assessed the reasonableness; and

(9) We checked whether information related to impairment of accounts receivable had been presented appropriately in the financial statements.

(II) The existence and valuation of geothermal project assets

### 1. Key audit matters

Please refer to section III (XIV), (XV) and V (I) 9, 10 of the notes to the financial statements for details.

As of December 31, 2020, carrying amount of geothermal project assets included in fixed assets and construction in progress amounted to 4.68 billion yuan, accounting for 80.83% of the carrying amount of fixed assets totaling 5.79 billion yuan, and accounting for 42.71% of the total assets. As the carrying amount of geothermal project assets accounts for a large proportion of the total assets, we have identified the existence and valuation for geothermal project assets as key audit matters.

### 2. Responsive audit procedures

Our main audit procedures for existence and evaluation of geothermal project assets are as follows:

- (1) We obtained understandings of key internal controls related to existence and evaluation of geothermal project assets, assessed the design of these controls, determined whether they had been executed, and tested the effectiveness thereof in operations;
- (2) We obtained working list of geothermal project engineering, and checked the original documents such as project budget reports, contracts, invoices, payment documents, engineering completion information, etc. to determine the accuracy of the recorded amount and the accounting treatment;
- (3) We checked the stage of capitalization of borrowing costs, assessed whether they had met the relevant conditions for capitalization, and analyzed the accuracy of capitalized borrowing costs of construction in progress;
- (4) We obtained information relevant to construction in progress carried forward to find out the accuracy of the time point that it reaches the designed usable conditions and the amount of fixed assets involved;
- (5) We obtained understandings of whether there is evidence indicating impairment loss in geothermal project assets; and

(6) We checked whether information related to geothermal project assets had been presented and disclosed appropriately in the financial statements.

### (III) Revenue recognition

#### 1. Key audit matters

Please refer to section III (XXII), V (II) 1 and XII (I) of the notes to the financial statements for details.

The Company is mainly engaged in sales of compressor series products and geothermal power generation business, etc. In 2020, the operating revenue amounted to 3.02 billion yuan, of which, 2.32 billion yuan was from the sales of compressor series products, accounting for 76.91% of total operating revenue.

Revenue from domestic sales of compressor series products is recognized when the following conditions are satisfied: the Company has delivered goods to the designated address as agreed by contract and such delivered goods have been verified for acceptance by customers; the Company has collected the payments or has obtained the right to the payments; related economic benefits are highly probable to flow to the Company; the main risks and rewards in the ownership of the goods have been transferred; the legal ownership of the goods has been transferred. Revenue from overseas sales is recognized when the following conditions are satisfied: the Company has declared goods to the customs based on contractual agreements, the goods have departed, and the Company has obtained a bill of lading; the Company has collected the payments or has obtained the right to the payments; related economic benefits are highly probable to flow to the Company; the main risks and rewards in the ownership of the goods have been transferred; the legal ownership of the goods has been transferred.

As operating revenue is one of the key performance indicators of the Company, there might be inherent risks that the Management adopts inappropriate revenue recognition to achieve specific goals or expectations. Therefore, we have identified revenue recognition as a key audit matter.

#### 2. Responsive audit procedures

Our main audit procedures for revenue recognition are as follows:

(1) We obtained and tested the internal controls related to revenue recognition, assessed the design of these controls, determined whether they had been executed, and tested the effectiveness of the operation;

- (2) We checked sales contracts, obtained understandings of main contractual terms or conditions, and assessed whether the revenue recognition method was appropriate;
- (3) We performed analysis procedure on operating revenue and gross margin by month, product, client, etc., so as to identify whether there are significant or abnormal fluctuations and find out the reason of fluctuations;
- (4) For revenue from domestic sales, we checked supporting documents related to revenue recognition by sampling method, including sales contracts, orders, sales invoices, delivery lists, delivery orders, shipping documents, client acceptance receipts, etc.; for revenue from overseas sales, we obtained information from Electron Port and checked it with accounting records, and checked supporting documents including sales contracts, bills of clearance, waybills, sales invoices, etc. by sampling method;
- (5) We performed confirmation procedures on current sales amount by sampling method in combination with confirmation procedure of accounts receivable;
- (6) We performed cut-off tests on the operating revenue recognized around the balance sheet date, and assessed whether the operating revenue was recognized in the appropriate period; and
- (7) We checked whether information related to operating revenue had been presented appropriately in the financial statements.

#### **IV. Other Information**

The Management is responsible for the other information. The other information comprises the information included in the Company's 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

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.

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

The Management is responsible for preparing and presenting fairly the financial statements in accordance with China Accounting Standards for Business Enterprises, as well as designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## VI. Certified Public Accountant's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We exercise professional judgment and maintain professional skepticism throughout the audit performed in accordance with China Standards on Auditing. We also:

(I) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(II) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

(III) Evaluate the appropriateness of accounting principles used and the reasonableness of accounting estimates and related disclosures made by the Management.

(IV) Conclude on the appropriateness of the Management's use of the going concern basis for accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(V) Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(VI) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain sole responsibility for our audit opinion.

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

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

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

Pan-China Certified Public Accountants LLP



Chinese Certified Public Accountant:  
(Engagement Partner)

Handwritten signature and red seal of the Chinese Certified Public Accountant (Engagement Partner).

Chinese Certified Public Accountant:

Handwritten signature and red seal of the Chinese Certified Public Accountant.

Date of Report: April 14, 2021

The auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

Zhejiang Kaishan Compressor Co., Ltd.  
Consolidated balance sheet as at December 31, 2020

(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	December 31, 2019
<b>Current assets:</b>			
Cash and bank balances	1	1,114,714,411.54	610,610,469.39
Settlement funds			
Loans to other banks			
Held-for-trading financial assets			
Derivative financial assets			
Notes receivable	2	524,451,215.58	381,427,335.43
Accounts receivable	3	560,889,066.38	574,115,427.09
Receivables financing			
Advances paid	4	96,830,153.83	68,154,724.99
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance reserve receivable			
Other receivables	5	31,453,036.67	27,561,099.63
Financial assets under reverse repo			
Inventories	6	1,175,992,958.09	1,114,714,411.54
Contract assets			
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets	7	29,726,892.44	30,761,151.23
<b>Total current assets</b>		<b>4,137,996,341.41</b>	<b>2,807,199,550.64</b>
<b>Non-current assets:</b>			
Loans and advances paid			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	8	90,320,499.81	79,868,353.86
Other equity instrument investments			
Other non-current financial assets			
Investment property			
Fixed assets	9	1,974,598,804.08	2,020,295,274.72
Construction in progress	10	3,817,099,163.71	2,492,781,639.85
Productive biological assets			
Oil & gas assets			
Right-of-use assets			
Intangible assets	11	305,812,546.01	251,143,909.34
Development expenditures			
Goodwill	12	212,682,814.00	222,179,659.75
Long-term prepayments			
Deferred tax assets	13	120,236,796.43	99,366,198.80
Other non-current assets	14	303,097,007.26	96,758,160.63
<b>Total non-current assets</b>		<b>6,823,848,595.22</b>	<b>3,543,002,369.90</b>
<b>Total assets</b>		<b>10,961,844,736.93</b>	<b>8,152,223,247.60</b>

Legal representative:

Office in charge of accounting:

Head of accounting department:

Zhejiang Kaishan Composites Co., Ltd.  
 Consolidated balance sheet as at December 31, 2020 (continued)  
 (Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	December 31, 2019
<b>Current liabilities:</b>			
Short-term borrowings	15	1,824,925,970.69	973,923,647.99
Central bank loans			
Loans from other banks			
Held-for-trading financial liabilities			
Derivative financial liabilities			
Notes payable	16	813,578,272.88	503,903,028.80
Accounts payable	17	1,081,278,374.48	715,610,790.93
Advances received	18		280,023,961.50
Contract liabilities	19	359,209,236.56	
Financial liabilities under repo			
Absorbing deposit and interbank deposit			
Deposit for agency security transaction			
Deposit for agency security underwriting			
Employee benefits payable	20	39,408,195.21	29,923,131.42
Taxes and rates payable	21	38,216,466.33	27,827,790.66
Other payables	22	37,062,113.11	39,519,217.86
Handling fee and commission payable			
Reinsurance accounts payable			
Liabilities classified as held for sale			
Non-current liabilities due within one year	23	221,135,366.84	154,583,744.64
Other current liabilities	24	20,789,820.37	
<b>Total current liabilities</b>		<b>4,435,610,868.47</b>	<b>2,725,315,227.80</b>
<b>Non-current liabilities:</b>			
Insurance policy reserve			
Long-term borrowings	25	1,708,845,571.62	1,764,264,148.31
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			
Long-term payables			
Long-term employee benefits payable	26	38,903,541.24	33,933,932.01
Provisions	27	2,705,575.88	2,812,964.29
Deferred income	28	27,364,038.46	30,332,900.00
Deferred tax liabilities	13	2,102,244.00	2,690,263.17
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>1,786,829,991.21</b>	<b>1,837,248,306.78</b>
<b>Total liabilities</b>		<b>6,222,440,859.68</b>	<b>4,562,563,534.58</b>
<b>Equity:</b>			
Share capital	29	993,635,018.00	858,000,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	30	2,427,817,245.88	1,490,478,854.86
Less: Treasury shares			
Other comprehensive income	31	-81,669,329.22	97,182,394.97
Special reserve			
Surplus reserve	32	245,073,756.79	217,408,024.69
General risk reserve			
Undistributed profit	33	1,161,907,077.71	933,569,817.88
Total equity attributable to the parent company		4,746,763,769.16	3,596,639,092.40
Non-controlling interest		-7,359,891.91	-6,979,379.38
<b>Total equity</b>		<b>4,739,403,877.25</b>	<b>3,589,659,713.02</b>
<b>Total liabilities &amp; equity</b>		<b>10,961,844,736.93</b>	<b>8,152,223,247.60</b>

Legal representative:

Office in charge of accounting:

Head of accounting department:

Zhejiang Kaishan Compressor Co., Ltd.  
 Parent company balance sheet as at December 31, 2020  
 (Expressed in Renminbi Yuan)

Assets	Note No.	2020 Closing balance	December 31, 2019
<b>Current assets:</b>			
Cash and bank balances		1,129,117,746.16	336,826,131.89
Held-for-trading financial assets			
Derivative financial assets			
Notes receivable		506,119,918.30	362,480,909.63
Accounts receivable	1	432,314,715.57	446,017,782.93
Receivables financing			
Advances paid		163,182,285.54	146,688,866.74
Other receivables	2	1,387,162,535.43	341,164,459.51
Inventories		236,627,188.77	194,396,046.41
Contract assets			
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets			12,394,998.14
<b>Total current assets</b>		<b>3,854,524,389.77</b>	<b>1,839,079,135.25</b>
<b>Non-current assets:</b>			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	3	4,368,633,788.37	3,895,770,048.88
Other equity instrument investments			
Other non-current financial assets			
Investment property			
Fixed assets		121,082,130.23	134,202,921.08
Construction in progress		3,189,333.77	522,123.89
Productive biological assets			
Oil & gas assets			
Right-of-use assets			
Intangible assets		49,254,898.12	51,041,426.26
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets		24,230,479.92	22,345,907.84
Other non-current assets		174,609,189.87	477,876.15
<b>Total non-current assets</b>		<b>4,748,316,579.81</b>	<b>4,104,360,304.08</b>
<b>Total assets</b>		<b>8,595,524,207.82</b>	<b>5,944,339,439.33</b>

Legal representative:

Office in charge of accounting:

Head of accounting department:

Zhejiang Kaishan Compressor Co., Ltd.

Parent company balance sheet as at December 31, 2020 (continued)

(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	December 31, 2019
<b>Current liabilities:</b>			
Short-term borrowings		1,123,175,664.78	721,417,129.27
Held-for-sale financial liabilities			
Derivative financial liabilities			
Notes payable		1,137,327,188.43	735,240,302.20
Accounts payable		809,445,048.11	586,369,350.56
Advances received			173,136,661.26
Contract liabilities		61,665,142.92	
Employee benefits payable		4,390,410.00	1,174,012.00
Taxes and rates payable		6,645,354.53	9,056,863.55
Other payables		122,790,541.19	218,910.50
Liabilities classified as held for sale			
Non-current liabilities due within one year		6,008,580.00	2,002,960.83
Other current liabilities		8,129,159.67	
<b>Total current liabilities</b>		<b>3,388,152,089.63</b>	<b>2,228,616,190.17</b>
<b>Non-current liabilities:</b>			
Long-term borrowings		382,466,668.89	238,340,068.34
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			
Long-term payables			
Long-term employee benefits payable			
Provisions			
Deferred income		14,021,538.46	16,130,000.00
Deferred tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>396,488,207.35</b>	<b>254,470,068.34</b>
<b>Total liabilities</b>		<b>3,784,640,296.98</b>	<b>2,483,086,258.51</b>
<b>Equity:</b>			
Share capital		993,635,018.00	858,000,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		2,444,211,324.99	1,506,872,111.11
Less: Treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve		245,075,756.79	217,408,024.69
Undistributed profit		1,127,963,811.06	878,972,222.16
<b>Total equity</b>		<b>4,810,883,910.84</b>	<b>3,461,253,180.82</b>
<b>Total liabilities &amp; equity</b>		<b>8,595,524,207.82</b>	<b>5,944,339,439.33</b>

Legal representative:

Office in charge of accounting:

Head of accounting department:

Zhejiang Kaishan Compressor Co., Ltd.  
 Consolidated income statement  
 (Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Total operating revenue	1	3,022,150,053.24	2,633,306,709.24
Including: Operating revenue	1	3,022,150,053.24	2,633,306,709.24
Interest income			
Premiums earned			
Revenue from handling charges and commission			
II. Total operating cost		2,715,475,927.51	2,421,122,547.07
Including: Operating cost		2,715,475,927.51	2,421,122,547.07
Interest expenses			
Handling charges and commission expenditures			
Surrender value			
Net payment of insurance claims			
Net provision of insurance policy reserve			
Premium bonus expenditures			
Reinsurance expenses			
Taxes and surcharges	2	15,824,788.14	14,237,207.21
Selling expenses	3	103,969,056.96	139,318,064.84
Administrative expenses	4	254,636,355.85	268,226,253.22
R&D expenses	5	106,375,456.71	86,961,116.59
Financial expenses	6	119,197,575.19	41,301,320.69
Including: Interest expenses			
Interest income	6	6,775,576.84	14,858,019.04
Add: Other income	7	29,185,210.44	19,291,881.87
Investment income (or less: losses)	8	10,173,562.24	7,291,424.72
Including: Investment income from associates and joint ventures	8	10,916,078.49	7,291,424.72
Gains on recognition of financial assets at amortized cost			
Gains on foreign exchange (or less: losses)			
Gains on net exposure to hedging risk (or less: losses)			
Gains on changes in fair value (or less: losses)			
Assets impairment loss	9	-15,952,545.78	-8,814,396.68
Assets impairment loss	10	-30,657,539.46	-43,124,594.32
Gains on asset disposal (or less: losses)	11	-306,623.83	330,375.10
III. Operating profit (or less: losses)		299,116,189.34	187,158,852.86
Add: Non-operating revenue	12	1,970,420.45	205,267.97
Less: Non-operating expenditures	13	574,755.55	1,126,471.01
IV. Profit before tax (or less: total loss)		300,511,854.24	186,237,649.82
Less: Income tax	14	37,248,139.34	33,276,917.03
V. Net profit (or less: net loss)		263,263,714.90	152,960,732.79
(I) Categorized by the continuity of operations			
1. Net profit from continuing operations (or less: net loss)		263,263,714.90	152,960,732.79
2. Net profit from discontinued operations (or less: net loss)			
(II) Categorized by the portion of equity ownership			
1. Net profit attributable to owners of parent company (or less: net loss)		256,002,991.93	152,522,160.42
2. Net profit attributable to non-controlling shareholders (or less: net loss)		7,260,722.97	438,572.37
VI. Other comprehensive income after tax		-184,892,959.69	20,925,429.26
Items attributable to the owners of the parent company		-178,851,724.19	25,326,460.88
(I) Not to be reclassified subsequently to profit or loss			
1. Changes in remeasurement on the net defined benefit plan			
2. Items under equity method that will not be reclassified to profit or loss			
3. Changes in fair value of other equity instrument investments			
4. Changes in fair value of own credit risk			
5. Others			
(II) To be reclassified subsequently to profit or loss		-178,851,724.19	25,326,460.88
1. Items under equity method that may be reclassified to profit or loss			
2. Changes in fair value of other debt investments			
3. Profit or loss from reclassification of financial assets into other comprehensive income			
4. Provision for credit impairment of other debt investments			
5. Cash flow hedging reserve			
6. Translation reserve		-178,851,724.19	25,326,460.88
7. Others			
Items attributable to non-controlling shareholders		-6,041,235.50	-4,401,031.62
VII. Total comprehensive income		78,370,755.21	173,886,162.05
Items attributable to the owners of the parent company		77,151,267.74	177,848,671.44
Items attributable to non-controlling shareholders		1,219,487.47	-3,962,459.25
VIII. Earnings per share (EPS):			
(I) Basic EPS (yuan per share)		0.30	0.18
(II) Diluted EPS (yuan per share)		0.30	0.18

Legal representative:

Office in charge of accounting:

Head of accounting department:

# Zhejiang Kaishan Compressor Co., Ltd.

Parent company income statement for the year ended December 31, 2020

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Operating revenue	1	1,780,720,320.36	1,555,800,951.99
Less: Operating cost	1	1,550,884,265.32	1,377,659,894.10
Taxes and surcharges		6,182,310.25	3,901,298.96
Selling expenses		25,902,694.07	37,512,046.30
Administrative expenses		36,552,118.48	33,589,863.04
R&D expenses		3,612,160.65	4,227,121.92
Financial expenses		101,116,414.16	16,898,589.90
Including: Interest expenses		77,105,633.32	34,940,153.43
Interest income		35,396,959.98	20,362,650.67
Add: Other income		6,691,004.97	8,988,902.13
Investment income (or less: losses)	2	311,753,004.82	234,788,273.57
Including: Investment income from associates and joint ventures		10,916,078.49	7,288,273.57
Gains from derecognition of financial assets at amortized cost			
Gains on net exposure to hedging risk (or less: losses)			
Gains on changes in fair value (or less: losses)			
Credit impairment loss		-79,241,032.53	-29,518,543.92
Assets impairment loss		-9,631,961.63	-19,882,318.84
Gains on asset disposal (or less: losses)			
II. Operating profit (or less: losses)		286,235,006.45	276,389,450.71
Add: Non-operating revenue			8,218.30
Less: Non-operating expenditures		227,328.75	362,247.79
III. Profit before tax (or less: total loss)		286,007,677.70	276,035,419.26
Less: Income tax		9,350,356.70	14,555,646.36
IV. Net profit (or less: net loss)		276,657,321.00	261,479,772.90
(I) Net profit from continuing operations (or less: net loss)		276,657,321.00	261,479,772.90
(II) Net profit from discontinued operations (or less: net loss)			
V. Other comprehensive income after tax			
(I) Not to be reclassified subsequently to profit or loss			
1. Changes in remeasurement on the net defined benefit plan			
2. Items under equity method that will not be reclassified to profit or loss			
3. Changes in fair value of other equity instrument investments			
4. Changes in fair value of own credit risk			
5. Others			
(II) To be reclassified subsequently to profit or loss			
1. Items under equity method that may be reclassified to profit or loss			
2. Changes in fair value of other debt investments			
3. Profit or loss from reclassification of financial assets into other comprehensive income			
4. Provision for credit impairment of other debt investments			
5. Cash flow hedging reserve			
6. Translation reserve			
7. Others			
VI. Total comprehensive income		276,657,321.00	261,479,772.90
VII. Earnings per share (EPS):			
(I) Basic EPS (yuan per share)			
(II) Diluted EPS (yuan per share)			

Legal representative:

Office in charge of accounting:

Head of accounting department:

Zhejiang Kaishan Compressor Co., Ltd.  
 Consolidated cash flow statement for the year ended December 31, 2020  
 (Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Comparative
<b>I. Cash flows from operating activities:</b>			
Cash receipts from sale of goods or rendering of services		3,247,183,064.70	2,955,204,305.07
Net increase of client deposit and interbank deposit			
Net increase of central bank loans			
Net increase of loans from other financial institutions			
Cash receipts from original insurance contract premium			
Net cash receipts from reinsurance			
Net increase of policy-holder deposit and investment			
Cash receipts from interest, handling charges and commission			
Net increase of loans from others			
Net increase of repurchase			
Net cash receipts from agency security transaction			
Receipts of tax refund		67,565,705.71	27,953,732.53
Other cash receipts related to operating activities			
Subtotal of cash inflows from operating activities		3,471,079,033.33	3,285,636,920.84
Cash payments for goods purchased and services received		2,142,050,191.02	2,220,665,552.37
Net increase of loans and advances to clients			
Net increase of central bank deposit and interbank deposit			
Cash payments for insurance indemnities of original insurance contracts			
Net increase of loans to others			
Cash payments for interest, handling charges and commission			
Cash payments for policy bonus			
Cash paid to and on behalf of employees		511,039,539.26	539,267,979.89
Cash payments for taxes and rates		149,038,630.06	129,454,610.05
Other cash payments related to operating activities		407,304,576.47	367,222,812.69
Subtotal of cash outflows from operating activities	2	3,209,432,936.81	3,256,610,955.00
Net cash flows from operating activities		261,646,096.52	29,025,965.84
<b>II. Cash flows from investing activities:</b>			
Cash receipts from withdrawal of investments			
Cash receipts from investment income			
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets		1,017,056.75	4,926,663.16
Net cash receipts from the disposal of subsidiaries & other business units			
Other cash receipts related to investing activities			
Subtotal of cash inflows from investing activities		1,017,056.75	4,926,663.16
Cash payments for the acquisition of subsidiaries and other long-term assets		675,583,185.91	744,344,544.91
Cash payments for investments			
Net increase of pledged borrowings			
Net cash payments for the acquisition of subsidiaries & other business units			
Other cash payments related to investing activities			
Subtotal of cash outflows from investing activities		675,583,185.91	744,344,544.91
Net cash flows from investing activities		-674,566,129.16	-739,417,881.75
<b>III. Cash flows from financing activities:</b>			
Cash receipts from absorbing investments		1,074,999,995.98	
Including: Cash received by subsidiaries from non-controlling shareholders as investments			
Cash receipts from borrowings		2,432,346,144.32	1,731,233,018.72
Other cash receipts related to financing activities			
Subtotal of cash inflows from financing activities		3,507,346,140.30	1,731,233,018.72
Cash payments for the repayment of borrowings		1,519,054,845.11	1,136,894,009.79
Cash payments for distribution of dividends or profits and for interest expenses		122,189,402.40	195,032,059.60
Including: Cash paid by subsidiaries to non-controlling shareholders as dividend or profit		1,600,000.00	1,000,000.00
Other cash payments related to financing activities	3	174,467,710.49	9,385,825.89
Subtotal of cash outflows from financing activities		1,815,711,958.00	1,341,311,895.28
Net cash flows from financing activities		1,691,634,182.30	389,921,123.44
<b>IV. Effect of foreign exchange rate changes on cash &amp; cash equivalents</b>		-276,930,856.74	20,225,041.29
<b>V. Net increase in cash and cash equivalents</b>		438,835,723.39	739,081,474.57
Add: Opening balance of cash and cash equivalents		1,440,619,016.31	438,835,723.39
<b>VI. Closing balance of cash and cash equivalents</b>			

Legal representative:

Office in charge of accounting:

Head of accounting department:

Zhejiang Kaishan Compressor Co., Ltd.  
 Parent company cash flow statement for the year ended December 31, 2020  
 (Expressed in Renminbi Yuan)

Items	Current period cumulative	Preceding period comparative
<b>I. Cash flows from operating activities:</b>		
Cash receipts from sale of goods and rendering of services	1,732,098,494.47	1,611,124,005.67
Receipts of tax refund	15,282,039.56	13,150,572.70
Other cash receipts related to operating activities	247,272,203.70	274,202,359.12
Subtotal of cash inflows from operating activities	1,994,652,737.73	1,898,476,937.49
Cash payments for goods purchased and services received	1,140,194,293.01	1,440,970,684.45
Cash paid to and on behalf of employees	66,018,788.19	63,512,734.07
Cash payments for taxes and rates	36,036,234.77	29,187,964.04
Other cash payments related to operating activities	248,483,127.60	200,379,519.97
Subtotal of cash outflows from operating activities	1,490,732,443.57	1,734,050,902.53
Net cash flows from operating activities	503,920,294.16	164,426,034.96
<b>II. Cash flows from investing activities:</b>		
Cash receipts from withdrawal of investments		
Cash receipts from investment income	302,400,000.00	227,500,000.00
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets	980.74	362,028.08
Net cash receipts from the disposal of subsidiaries & other business units	10,526.33	
Other cash receipts related to investing activities	91,476,012.03	43,638,965.49
Subtotal of cash inflows from investing activities	393,887,519.10	271,500,993.57
Cash payments for the acquisition of fixed assets, intangible assets and other long-term assets	7,733,441.21	23,779,737.92
Cash payments for investments	463,521,261.00	359,182,748.53
Net cash payments for the acquisition of subsidiaries & other business units		
Other cash payments related to investing activities	1,183,758,952.66	383,454,590.00
Subtotal of cash outflows from investing activities	1,655,013,654.87	766,417,076.45
Net cash flows from investing activities	-1,261,126,135.77	-494,916,082.88
<b>III. Cash flows from financing activities:</b>		
Cash receipts from absorbing investments	1,074,999,995.98	
Cash receipts from borrowings	1,839,194,366.19	1,169,524,000.00
Other cash receipts related to financing activities		
Subtotal of cash inflows from financing activities	2,914,194,362.17	1,169,524,000.00
Cash payments for the repayment of borrowings	1,165,699,432.36	1,030,000,000.00
Cash payments for distribution of dividends or profits and for interest expenses	52,040,585.26	117,482,231.97
Other cash payments related to financing activities	174,467,710.49	
Subtotal of cash outflows from financing activities	1,392,207,728.11	1,147,482,231.97
Net cash flows from financing activities	1,521,986,634.06	22,041,768.03
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>	-77,291,442.63	98,165.50
<b>V. Net increase in cash and cash equivalents</b>	687,489,349.82	-308,350,114.39
Add: Opening balance of cash and cash equivalents	175,076,291.30	483,426,405.69
<b>VI. Closing balance of cash and cash equivalents</b>	862,565,641.12	175,076,291.30

Legal representative:

Office in charge of accounting:

Head of accounting department:





Zhejiang Kaishar Compressor Co., Ltd.  
Parent company statement of changes in equity for the year ended December 31, 2020  
(Expressed in Renminbi Yuan)

Statement of changes in equity for the year ended December 31, 2020

Items	Share capital	Other equity instruments		Current period cumulative					Surplus reserve	Undistributed profit	Total equity	
		Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve				
I. Balance at the end of prior year												
Add: Cumulative changes of accounting policies	858,000,000.00				1,506,872,933.97					217,408,024.69	878,972,222.16	3,461,253,180.82
Error correction of prior period												
Others												
II. Balance at the beginning of current year	858,000,000.00									217,408,024.69	878,972,222.16	3,461,253,180.82
III. Current period increase (or decrease)	135,635,018.00				1,506,872,933.97					217,408,024.69	878,972,222.16	3,461,253,180.82
(I) Total comprehensive income					937,338,391.02					27,665,732.10	248,991,588.90	1,349,630,730.02
(II) Capital contributed or withdrawn by owners	135,635,018.00										276,657,321.00	276,657,321.00
1. Ordinary shares contributed by owners	135,635,018.00											
2. Capital contributed by holders of other equity instruments					937,338,391.02							1,072,973,409.02
3. Amount of share-based payment included in equity												
4. Others												
(III) Profit distribution												
1. Appropriation of surplus reserve										27,665,732.10	-27,665,732.10	
2. Appropriation of profit to shareholders										27,665,732.10	-27,665,732.10	
3. Others												
(IV) Internal carry-over within equity												
1. Transfer of capital reserve to equity												
2. Transfer of surplus reserve to capital												
3. Surplus reserve to cover losses of capital												
4. Changes in defined benefit plans												
5. Other comprehensive income retained earnings carried over to retained earnings												
6. Others												
(V) Special reserve												
1. Appropriation of current period												
2. Application of current period												
(VI) Others												
IV. Balance at the end of current period	993,635,018.00				2,444,211,324.99					245,073,756.79	1,127,963,811.06	4,810,883,910.84

Legal representative:

Office in charge of accounting:

Head of accounting department:



# Zhejiang Kaishan Compressor Co., Ltd.

## Notes to Financial Statements

For the year ended December 31, 2020

Monetary unit: RMB Yuan

### I. Company profile

Zhejiang Kaishan Compressor Co., Ltd. (the "Company") is a limited company by shares transformed on an integral basis from 浙江开山通用机械有限公司 (Zhejiang Kaishan General Machinery Co., Ltd.\*). Headquartered in Quzhou City, Zhejiang Province, the Company was registered with Zhejiang Administration for Industry and Commerce on July 11, 2002 and currently holds a business license with unified social credit code of 9133000074100296XK, with registered capital of 993,635,018 yuan, total share of 993,635,018 shares (each with par value of one yuan), of which, 175,919,385 shares are restricted outstanding A shares, and 817,715,633 shares are unrestricted outstanding A shares. The Company's shares were listed at Shenzhen Stock Exchange on August 19, 2011.

The Company belongs to compressor manufacturing industry and is mainly engaged in manufacturing, sales and rental service of compressor, vacuum pump, expander, expansion power generator, air blower, supercharger, and relevant accessories; sales of lubricating oil and engine oil (excluding hazardous chemicals); construction and operation maintenance of air compressor station project and geothermal power station project; and import and export of goods and technologies. (For items required with special permit, the Company operates under permission of relevant authorities.) The Company's main products and services are compressor series products and geothermal services.

The financial statements were approved by the Board of Directors on July 14, 2021.

The Company has brought 64 subsidiaries including 浙江开山凯文螺杆机械有限公司 (Zhejiang Kaishan Kevin Screw Machinery Co., Ltd.\*, hereinafter referred to as "Kaishan Kevin Screw Company") into the consolidation scope. List of subsidiaries is as follows:

Full name	Abbreviations	Full name	Abbreviations
Zhejiang Kaishan Kevin Screw Machinery Co., Ltd.	Kaishan Kevin Screw Company	浙江开山压力容器有限公司 Co., Ltd.*	Kaishan Pressure Vessel Company
浙江开山离心机械有限公司 (Zhejiang Kaishan Centrifugal Machinery Co., Ltd.*)	Centrifugal Machinery Company	浙江开山铸道有限公司 (Zhejiang Kaishan Foundry Co., Ltd.*)	Kaishan Foundry Company

\* The English names are for identification purpose only.

Full name	Abbreviations	Full name	Abbreviations
上海维尔泰克螺杆机械有限公司 (Shanghai Power Tech Screw Machinery Co., Ltd.*)	Power Tech Screw Company	浙江开山净化设备有限公司 (Zhejiang Kaishan Cleaning Equipment Co., Ltd.*)	Kaishan Company
上海恺雷自控系统有限公司 (Shanghai Kerry Auto-control System Co., Ltd.*)	Kerry Auto-control Company	维尔泰克(上海)压缩空气系统技术有限公司 (Power Tech (Shanghai) Compressed Air System Technic Co., Ltd.*)	Power Tech System Company
浙江开山恺雷滤清器有限公司 (Zhejiang Kaishan Kerry Filtration Co., Ltd.*)	Kerry Filtration Company	开山压缩机服务(上海)有限公司 (Kaishan Compressor Service (Shanghai) Co., Ltd.*) [Note 1]	Kaishan Service Company
上海开山能源装备有限公司 (Shanghai Kaishan Energy Equipment Co., Ltd.*)	Shanghai Energy Company	上海开山冷冻系统设备有限公司 (Shanghai Kaishan Refrigeration System Technology Co., Ltd.*)	Kaishan Refrigeration Company
重庆开山流体机械有限公司 (Chongqing Kaishan Fluid Machinery Co., Ltd.*) [Note 2]	Chongqing Fluid Machinery Company	上海开山气体压缩机有限公司 (Shanghai Kaishan Gas Compressor Co., Ltd.*)	Kaishan Gas Company
广东正力精密机械有限公司 (Guangdong Ganey Precision Machinery Co., Ltd.*)	Guangdong Ganey Company	重庆开山压力容器有限公司 (Chongqing Kaishan Pressure Vessel Co., Ltd.*)	Chongqing Pressure Vessel Company
浙江开山能源装备有限公司 (Zhejiang Kaishan Energy Equipment Co., Ltd.*)	Zhejiang Energy Company	开泰克压缩机(上海)有限公司 (Kaitec Compressor (Shanghai) Co., Ltd.*)	Kaishan Compressor Company
上海开山钻井技术服务有限公司 (Shanghai Kaishan Drilling Technology Service Co., Ltd.*)	Shanghai Drilling Company	浙江开山地热电厂运维服务有限公司 (Zhejiang Kaishan Geothermal Power Plant O&M Service Co., Ltd.*)	Kaishan Geothermal Power Plant O&M Service Company
开山压缩机(香港)有限公司 (Kaishan Compressor (Hong Kong) Co., Ltd.*)	Kaishan Hong Kong Company	台湾开山压缩机有限公司 (Taiwan Kaishan Compressor Co., Ltd.*)	Taiwan Kaishan Company
开山压缩机亚太营销(香港)有限公司 (Kaishan Compressor Asia-pacific Marketing (Hong Kong) Co., Ltd.*)	Asia-pacific Hong Kong Company	New Jersey North America Development Center	North America Center
Kaitain Assets Management (Australia) Co., Ltd.	Australia Management Company	Kaishan Australia Pty Ltd.	Kaishan Australia
Kaishan Machinery (India) Private Limited	Kaishan India Company	Kaishan Technologies of America, LLC	America Technologies Company
KS ORKA 可再生能源有限公司 (KS PRKA Recycling Energy Co., Ltd.*)	KS ORKA Company	开山可再生能源发展有限公司 (Kaishan Recycling Energy Development Co., Ltd.*)	Kaishan Recycling Company
LMF Unternehmensbeteiligungs GmbH	LMF Company	Open Mountain Energy LLC	OME Company
Hungary Turawell Geothermal Co., Ltd.	Turawell Geothermal Company	OTP Geothermal Pte. Limited	OTP Company
PT SOKORIA GEOTHERMAL INDONESIA	SGI Company	PT SorikMarapi Geothermal Power	SMGP Company
Kaishan Compressor (USA) LLC	KCA Company	开山能源(欧亚)有限公司 (Open Mountain Energy (Eurasia) Pte.Ltd.*)	Eurasia Company
开山欧洲有限公司 (Kaishan Europe sp.zo.o*)	Kaishan Europe	成都开山钻井工程技术服务有限公司 (Chengdu Kaishan Drilling Engineering Technology Service Co., Ltd.*)	Chengdu Drilling Company
开泰克压缩机(深圳)有限公司 (Kaitec Compressor (Shenzhen) Co., Ltd.*)	Shenzhen Kaitec	Open Mountain Turkey Geothermal Energy Limited Sirketi	Kaishan Turkey

Note 1: Formerly known as 上海恺雷压缩机有限公司 (Shanghai Kerry Compressor Co., Ltd.)

\* The English names are for identification purpose only.

now renamed as Kaishan Compressor Service (Shanghai) Co., Ltd.

Note 2: Formerly known as 重庆开山压缩机有限公司 (Chongqing Kaishan Compressor Co., Ltd.), now renamed as Chongqing Kaishan Fluid Machinery Co., Ltd.

## II. Preparation basis of the financial statements

### (I) Preparation basis

The financial statements have been prepared on the basis of going concern.

### (II) Assessment of the ability to continue as a going concern

The Company has no events or conditions that may cast significant doubts upon the Company's ability to continue as a going concern within the 12 months after the balance sheet date.

## III. Significant accounting policies and estimates

Important note:

The Company has set up accounting policies and estimates on transactions or events such as impairment of financial instruments, depreciation of fixed assets, amortization of intangible assets, and revenue recognition, etc. based on the Company's actual production and operation features.

### (I) Statement of compliance

The financial statements have been prepared in accordance with the requirements of China Accounting Standards for Business Enterprises (CASBEs), and present truly and completely the financial position, results of operations and cash flows of the Company.

### (II) Accounting period

The accounting year of the Company runs from January 1 to December 31 under the Gregorian calendar.

### (III) Operating cycle

The Company has a relatively short operating cycle for its business, an asset or liability is classified as current if it is expected to be realized or due within 12 months.

### (IV) Functional currency

The Company's functional currency is Renminbi (RMB) Yuan.

### (V) Accounting treatments of business combinations under common control

#### 1. Accounting treatment of business combination under common control

Assets and liabilities arising from business combination have been measured at carrying amount of the combined party included in the consolidated financial statements of the ultimate controlling party at the combination date. Difference between carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party and that of the

\* The English name is for identification purpose only.

combination consideration or total par value of shares issued is adjusted to capital reserve, if the balance of capital reserve is insufficient to offset the excess, the excess is adjusted to retained earnings.

## 2. Accounting treatment of business combination not under common control

When combination cost is in excess of the fair value of identifiable net assets obtained from the acquiree at the acquisition date, the excess is recognized as goodwill; otherwise, the fair value of identifiable assets, liabilities and contingent liabilities, and the measurement of the combination cost are reviewed, then the difference is recognized in profit or loss.

### (VI) Compilation method of consolidated financial statements

The parent company brings all its controlled subsidiaries into the consolidation scope. The consolidated financial statements are compiled by the parent company according to "CASBE 33 – Consolidated Financial Statements", based on relevant information and the financial statements of the parent company and its subsidiaries.

### (VII) Classification of joint arrangements and joint operations

#### 1. Joint arrangements include joint operations and joint ventures

2. When the Company is a joint operator of a joint operation, it recognizes the following items in relation to its interest in a joint operation:

- (1) its assets, including its share of any assets held jointly;
- (2) its liabilities, including its share of any liabilities incurred jointly;
- (3) its revenue from the sale of its share of the output arising from the joint operation;
- (4) its share of the revenue from the sales of the assets by the joint operation; and
- (5) its expenses, including its share of any expenses incurred jointly.

### (VIII) Recognition criteria of cash and cash equivalents

Cash as presented in cash flow statement refers to cash on hand and deposits on hand and for payment. Cash equivalents refer to short-term, highly liquid investments that can be readily converted to cash and that are subject to an insignificant risk of changes in value.

### (IX) Foreign currency translation

#### 1. Translation of transactions denominated in foreign currency

Transactions denominated in foreign currency are translated into RMB yuan at the approximate exchange rate similar to the spot exchange rate at the transaction date at initial recognition. At the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate at the balance sheet date with difference, except for those arising from the principal and interest of exclusive borrowings eligible for capitalization, included in profit or loss; non-cash items carried at historical costs are translated at the spot exchange rate at the transaction date, with the RMB amounts unchanged; non-cash items carried at fair value in foreign currency are

translated at the spot exchange rate at the date when the fair value was determined, with difference included in profit or loss or other comprehensive income.

## 2. Translation of financial statements measured in foreign currency

The assets and liabilities in the balance sheet are translated into RMB at the spot rate at the balance sheet date; the equity items, other than undistributed profit, are translated at the spot rate at the transaction date; the revenues and expenses in the income statement are translated into RMB at the approximate exchange rate similar to the spot exchange rate at the transaction date. The difference arising from the aforementioned foreign currency translation is included in other comprehensive income.

## (X) Financial instruments

### 1. Classification of financial assets and financial liabilities

Financial assets are classified into the following three categories when initially recognized: (1) financial assets at amortized cost; (2) financial assets at fair value through other comprehensive income; (3) financial assets at fair value through profit or loss.

Financial liabilities are classified into the following four categories when initially recognized: (1) financial liabilities at fair value through profit or loss; (2) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; (3) financial guarantee contracts not fall within the above categories (1) and (2), and commitments to provide a loan at a below-market interest rate, which do not fall within the above category (1); (4) financial liabilities at amortized cost.

### 2. Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities

#### (1) Recognition criteria and measurement method of financial assets and financial liabilities

When the Company becomes a party to a financial instrument, it is classified as a financial asset or financial liability. The financial assets and financial liabilities initially recognized by the Company are measured at fair value; for the financial assets and liabilities at fair value through profit or loss, the transaction expenses thereof are directly included in profit or loss; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included into the initially recognized amount. However, at initial recognition, for accounts receivable that do not contain a significant financing component or in circumstances where the Company does not consider the financing components in contracts within one year, the Company measures at their transaction price in accordance with "CASBE 14 – Revenues".

#### (2) Subsequent measurement of financial assets

##### 1) Financial assets measured at amortized cost

The Company measures its financial assets at the amortized costs using effective interest method. Gains or losses on financial assets that are measured at amortized cost and are not part of hedging

relationships shall be included into profit or loss when the financial assets are derecognized, reclassified, amortized using effective interest method or recognized with impairment.

2) Debt instrument investments at fair value through other comprehensive income

The Company measures its debt instrument investments at fair value. Interests, impairment gains or losses, and gains and losses on foreign exchange that calculated using effective interest method shall be included into profit or loss, while other gains or losses are included into other comprehensive income. Accumulated gains or losses that initially recognized as other comprehensive income should be transferred out into profit or loss when the financial assets are derecognized.

3) Equity instrument investments at fair value through other comprehensive income

The Company measures its equity instrument investments at fair value. Dividends obtained (other than those as part of investment cost recovery) shall be included into profit or loss, while other gains or losses are included into other comprehensive income. Accumulated gains or losses that initially recognized as other comprehensive income should be transferred out into retained earnings when the financial assets are derecognized.

4) Financial assets at fair value through profit or loss

The Company measures its financial assets at fair value. Gains or losses arising from changes in fair value (including interests and dividends) shall be included into profit or loss, except for financial assets that are part of hedging relationships.

(3) Subsequent measurement of financial liabilities

1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include held-for-trading financial liabilities (including derivatives that are liabilities) and financial liabilities designated as at fair value through profit or loss. The Company measures such kind of liabilities at fair value. The amount of changes in the fair value of the financial liabilities that are attributable to changes in the Company's own credit risk shall be included into other comprehensive income unless such treatment would create or enlarge accounting mismatches in profit or loss. Other gains or losses on those financial liabilities (including interests, changes in fair value that are attributable to reasons other than changes in the Company's own credit risk) shall be included into profit or loss, except for financial liabilities that are part of hedging relationships. Accumulated gains or losses that originally recognized as other comprehensive income should be transferred out into retained earnings when the financial liabilities are derecognized.

2) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies

The Company measures its financial liabilities in accordance with "CASBE 23 – Transfer of Financial Assets".

3) Financial guarantee contracts not fall within the above categories 1) and 2), and commitments to provide a loan at a below-market interest rate, which do not fall within the above category 1)

The Company measures its financial liabilities at the higher of: a. the amount of loss allowances in accordance with impairment requirements of financial instruments; or b. the amount initially recognized less the amount of accumulated amortization recognized in accordance with “CASBE 14 – Revenues”.

4) Financial liabilities at amortized cost

The Company measures its financial liabilities at amortized cost using effective interest method. Gains or losses on financial liabilities that are measured at amortized cost and are not part of hedging relationships shall be included into profit or loss when the financial liabilities are derecognized and amortized using effective interest method.

(4) Derecognition of financial assets and financial liabilities

1) Financial assets are derecognized when:

a. the contractual rights to the cash flows from the financial assets expire; or

b. the financial assets have been transferred and the transfer qualifies for derecognition in accordance with “CASBE 23 – Transfer of Financial Assets”.

2) Only when the underlying present obligations of a financial liability are relieved totally or partly may the financial liability be derecognized accordingly.

3. Recognition criteria and measurement method of financial assets transfer

Where the Company has transferred substantially all of the risks and rewards related to the ownership of the financial asset, it derecognizes the financial asset, and any right or liability arising from such transfer is recognized independently as an asset or a liability. If it retained substantially all of the risks and rewards related to the ownership of the financial asset, it continues recognizing the financial asset. Where the Company does not transfer or retain substantially all of the risks and rewards related to the ownership of a financial asset, it is dealt with according to the circumstances as follows respectively: (1) if the Company does not retain its control over the financial asset, it derecognizes the financial asset, and any right or liability arising from such transfer is recognized independently as an asset or a liability; (2) if the Company retains its control over the financial asset, according to the extent of its continuing involvement in the transferred financial asset, it recognizes the related financial asset and recognizes the relevant liability accordingly.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the amounts of the following two items are included in profit or loss: (1) the carrying amount of the transferred financial asset as of the date of derecognition; (2) the sum of consideration received from the transfer of the financial asset, and the accumulative amount of the changes of the fair value originally included in other comprehensive income proportionate to the

transferred financial asset (financial assets transferred refer to debt instrument investments at fair value through other comprehensive income). If the transfer of financial asset partially satisfies the conditions to derecognition, the entire carrying amount of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the amount and the following two items are included into profit or loss: (1) the carrying amount of the portion which is derecognized; (2) the sum of consideration of the portion which is derecognized, and the portion of the accumulative amount of the changes in the fair value originally included in other comprehensive income which is corresponding to the portion which is derecognized (financial assets transferred refer to debt instrument investments at fair value through other comprehensive income).

#### 4. Fair value determination method of financial assets and liabilities

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The inputs to valuation techniques used to measure fair value are arranged in the following hierarchy and used accordingly:

(1) Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.

(2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability, for example, interest rates and yield curves observable at commonly quoted intervals; market-corroborated inputs;

(3) Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs include interest rate that is not observable and cannot be corroborated by observable market data at commonly quoted intervals, historical volatility, future cash flows to be paid to fulfill the disposal obligation assumed in business combination, and financial forecast developed using the Company's own data, etc.

#### 5. Impairment of financial instruments

##### (1) Measurement and accounting treatment

The Company, on the basis of expected credit loss, recognizes loss allowances of financial assets at amortized cost, debt instrument investments at fair value through other comprehensive income, contract assets, leases receivable, loan commitments other than financial liabilities at fair value through profit or loss, financial guarantee contracts not belong to financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

Expected credit losses refer to the weighted average of credit losses with the respective risks of a

default occurring as the weights. Credit loss refers to the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive (less all cash shortfalls) discounted at the original effective interest rate. Among which, purchased or originated credit-impaired financial assets are discounted at the credit-adjusted effective interest rate.

At the balance sheet date, the Company shall only recognize the cumulative changes in the lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

For accounts receivable and contract assets resulting from transactions as regulated in “CASBE 14 – Revenues” which do not contain a significant financing component or in circumstances where the Company does not consider the financing components in contracts within one year, the Company chooses simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses.

For leases receivable, and accounts receivable and contract assets resulting from transactions as regulated in “CASBE 14 – Revenues” and containing a significant financing component, the Company chooses simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses.

For financial assets other than the above, on each balance sheet date, the Company shall assess whether the credit risk on the financial instrument has increased significantly since initial recognition. The Company shall measure the loss allowance for the financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition; otherwise, the Company shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit loss.

Considering reasonable and supportable forward-looking information, the Company compares the risk of a default occurring on the financial instrument as at the balance sheet date with the risk of a default occurring on the financial instrument as at the date of initial recognition, so as to assess whether the credit risk on the financial instrument has increased significantly since initial recognition.

The Company may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have relatively low credit risk at the balance sheet date.

The Company shall estimate expected credit risk and measure expected credit losses on an individual or a collective basis. When the Company adopts the collective basis, financial instruments are grouped with similar credit risk features.

The Company shall remeasure expected credit loss on each balance sheet date, and increased or

reversed amounts of loss allowance arising therefrom shall be included into profit or loss as impairment losses or gains. For a financial asset measured at amortized cost, the loss allowance reduces the carrying amount of such financial asset presented in the balance sheet; for a debt investment measured at fair value through other comprehensive income, the loss allowance shall be recognized in other comprehensive income and shall not reduce the carrying amount of such financial asset.

(2) Financial instruments with expected credit risk assessed and expected credit losses measured on a collective basis

Items	Basis for determination of portfolio	Method for measuring expected credit loss
Other receivables Portfolio grouped with ages	Ages	Based on historical credit loss experience, the current situation and the forecast for future economic conditions, the Company calculates expected credit loss through exposure at default and 12-month or lifetime expected credit loss rate.

(3) Accounts receivable and contract assets with expected credit losses measured on a collective basis

1) Specific portfolios and method for measuring expected credit loss

Items	Basis for determination of portfolio	Method for measuring expected credit loss
Bank acceptance receivable	Type of notes	Based on historical credit loss experience, the current situation and the forecast of future economic conditions, the Company calculates expected credit loss through exposure at default and lifetime expected credit loss rate.
Trade acceptance receivable		
Accounts receivable – Portfolio grouped with ages	Ages	Based on historical credit loss experience, the current situation and the forecast of future economic conditions, the Company prepares the comparison table of ages and lifetime expected credit loss rate of accounts receivable, so as to calculate expected credit loss.

2) Accounts receivable – comparison table of ages and lifetime expected credit loss rate of portfolio grouped with ages

Ages	Expected credit loss rate (%)
Within 1 year (inclusive, the same hereinafter)	5
1-2 years	10
2-3 years	15
3-4 years	50
4-5 years	70
Over 5 years	100

6. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset. However, the Company offsets a financial asset and a financial liability and presents the net amount in the balance sheet when, and only when, the Company: (1) currently has a legally enforceable right to set off the recognized amounts; and (2) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

For a transfer of a financial asset that does not qualify for derecognition, the Company does not offset the transferred asset and the associated liability.

#### (XI) Inventories

##### 1. Classification of inventories

Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials or supplies etc. to be consumed in the production process or in the rendering of services.

##### 2. Accounting method for dispatching inventories:

Inventories dispatched from storage are accounted for with weighted average method at the end of each month.

##### 3. Basis for determining net realizable value

At the balance sheet date, inventories are measured at the lower of cost and net realizable value; provisions for inventory write-down are made on the excess of its cost over the net realizable value. The net realizable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realizable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realizable value is determined separately and is compared with their costs to set the provision for inventory write-down to be made, if needed.

##### 4. Inventory system

Perpetual inventory method is adopted.

##### 5. Amortization method of low-value consumables and packages

###### (1) Low-value consumables

Low-value consumables are amortized with one-off method.

###### (2) Packages

Packages are amortized with one-off method.

#### (XII) Contract costs

Assets related to contract costs including costs of obtaining a contract and costs to fulfil a contract.

The Company recognizes as an asset the incremental costs of obtaining a contract if those costs are expected to be recovered. The costs of obtaining a contract shall be included into profit or loss when incurred if the amortization period of the asset is one year or less.

If the costs incurred in fulfilling a contract are not within the scope of standards related to inventories, fixed assets or intangible assets, etc., the Company shall recognize the costs to fulfil a contract as an asset if all the following criteria are satisfied:

1. The costs relate directly to a contract or to an anticipated contract, including direct labor, direct materials, manufacturing overhead cost (or similar cost), cost that are explicitly chargeable to the customer under the contract, and other costs that are only related to the contract;
2. The costs enhance resources of the Company that will be used in satisfying performance obligations in the future; and
3. The costs are expected to be recovered.

An asset related to contract costs shall be amortized on a systematic basis that is consistent with related goods or services, with amortization included into profit or loss.

The Company shall make provision for impairment and recognize an impairment loss to the extent that the carrying amount of an asset related to contract costs exceeds the remaining amount of consideration that the Company expects to receive in exchange for the goods or services to which the asset relates less the costs expected to be incurred. The Company shall recognize a reversal of an impairment loss previously recognized in profit or loss when the impairment conditions no longer exist or have improved. The carrying amount of the asset after the reversal shall not exceed the amount that would have been determined on the reversal date if no provision for impairment had been made previously.

### (XIII) Long-term equity investments

#### 1. Judgment of joint control and significant influence

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of these policies.

#### 2. Determination of investment cost

(1) For business combination under common control, if the consideration of the combining party is that it makes payment in cash, transfers non-cash assets, assumes its liabilities or issues equity securities, on the date of combination, it regards the share of the carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party as the initial cost of the investment. The difference between the initial cost of the long-term equity investments and the carrying amount of the combination consideration paid or the par value

of shares issued offsets capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When long-term equity investments are obtained through business combination under common control achieved in stages, the Company determines whether it is a “bundled transaction”. If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, on the date of combination, investment cost is initially recognized at the share of the carrying amount of net assets of the combined party included the consolidated financial statements of the ultimate controlling party. The difference between the initial investment cost of long-term equity investments and the acquisition-date fair value plus the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity is adjusted to capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

(2) For business combination not under common control, investment cost is initially recognized at the acquisition-date fair value of considerations paid.

When long-term equity investments are obtained through business combination not under common control achieved in stages, the Company determined whether they are stand-alone financial statements or consolidated financial statements in accounting treatment:

1) In the case of stand-alone financial statements, investment cost is initially recognized at the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity.

2) In the case of consolidated financial statements, the Company determines whether it is a “bundled transaction”. If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, the carrying amount of the acquirer’s previously held equity interest in the acquiree is remeasured at the acquisition-date fair value, and the difference between the fair value and the carrying amount is recognized in investment income; when the acquirer’s previously held equity interest in the acquiree involves other comprehensive income under equity method, the related other comprehensive income is reclassified as income for the acquisition period, excluding other comprehensive income arising from changes in net liabilities or assets from remeasurement of defined benefit plan of the acquiree.

(3) Long-term equity investments obtained through ways other than business combination: the initial cost of a long-term equity investment obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to “CASBE 12 – Debt Restructuring”; and that obtained through non-cash assets exchange is determined according to “CASBE 7 – Non-cash Assets Exchange”.

### 3. Subsequent measurement and recognition method of profit or loss

For long-term equity investments with control relationship, it is accounted for with cost method; for long-term equity investments with joint control or significant influence relationship, it is accounted for with equity method.

### 4. Disposal of a subsidiary in stages resulting in the Company's loss of control

#### (1) Stand-alone financial statements

The difference between the carrying amount of the disposed equity and the consideration obtained thereof is recognized in profit or loss. If the disposal does not result in the Company's loss of significant influence or joint control, the remained equity is accounted for with equity method; however, if the disposal results in the Company's loss of control, joint control, or significant influence, the remained equity is accounted for according to "CASBE 22 – Financial Instruments: Recognition and Measurement".

#### (2) Consolidated financial statements

##### 1) Disposal of a subsidiary in stages not qualified as "bundled transaction" resulting in the Company's loss of control

Before the Company's loss of control, the difference between the disposal consideration and the proportionate share of net assets in the disposed subsidiary from acquisition date or combination date to the disposal date is adjusted to capital reserve (capital premium), if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When the Company loses control, the remained equity is remeasured at fair value. The aggregated value of disposal consideration and the fair value of the remained equity, less the share of net assets in the disposed subsidiary held before the disposal from the acquisition date or combination date to the disposal date is recognized in investment income in the period when the Company loses control over such subsidiary, and the goodwill is offset correspondingly. Other comprehensive income related to equity investments in former subsidiary is reclassified as investment income upon the Company's loss of control.

##### 2) Disposal of a subsidiary in stages qualified as "bundled transaction" resulting in the Company's loss of control

In case of "bundled transaction", stages as a whole are considered as one transaction resulting in loss of control in accounting treatment. However, before the Company loses control, the difference between the disposal consideration at each stage and the proportionate share of net assets in the disposed subsidiary is recognized as other comprehensive income at the consolidated financial statements and reclassified as profit or loss in the period when the Company loses control over such subsidiary.

### (XIV) Fixed assets

#### 1. Recognition principles of fixed assets

Fixed assets are tangible assets held for use in the production of goods or rendering of services, for rental to others, or for administrative purposes, and expected to be used during more than one accounting year. Fixed assets are recognized if, and only if, it is probable that future economic benefits associated with the assets will flow to the Company and the cost of the assets can be measured reliably.

## 2. Depreciation method of different categories of fixed assets

Categories	Depreciation method	Useful life (years)	Residual value proportion (%)	Annual depreciation rate (%)
Buildings and structures	Straight-line method	20	5, 10	4.50-4.75
General equipment	Straight-line method	3-5	5, 10	18.00-31.67
Special equipment [Note]	Straight-line method	10-30	5, 10	3.00-9.50
Transport facilities	Straight-line method	5	5, 10	18.00-19.00
Other equipment	Straight-line method	3-5	5, 10	18.00-31.67

Note: Useful life of geothermal equipment is 20-30 years, with no residual value.

## (XV) Construction in progress

1. Construction in progress is recognized if, and only if, it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. Construction in progress is measured at the actual cost incurred to reach its designed usable conditions.

2. Construction in progress is transferred into fixed assets at its actual cost when it reaches the designed usable conditions. When the auditing of the construction in progress was not finished while reaching the designed usable conditions, it is transferred to fixed assets using estimated value first, and then adjusted accordingly when the actual cost is settled, but the accumulated depreciation is not to be adjusted retrospectively.

## (XVI) Borrowing costs

### 1. Recognition principle of borrowing costs capitalization

Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it is capitalized and included in the costs of relevant assets; other borrowing costs are recognized as expenses on the basis of the actual amount incurred, and are included in profit or loss.

### 2. Borrowing costs capitalization period

(1) The borrowing costs are not capitalized unless the following requirements are all met: 1) the asset disbursements have already incurred; 2) the borrowing costs have already incurred; and 3) 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: where the acquisition and construction or production for a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs is suspended; the borrowing costs incurred during such period are recognized as expenses, and are included in profit or loss, till the acquisition and construction or production of the asset restarts.

(3) Ceasing of 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 is ceased.

### 3. Capitalization rate and capitalized amount of borrowing costs

For borrowings exclusively for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests is determined in light of the actual interest expenses incurred (including amortization of premium or discount based on effective interest method) of the special borrowings in the current period less the interest income on the unused borrowings as a deposit in the bank or as a temporary investment; where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the Company calculates and determines the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements less the general borrowing by the capitalization rate of the general borrowing used.

### (XVII) Intangible assets

1. Intangible assets include land use right, patent right and non-patented technology etc. The initial measurement of intangible assets is based on its cost.

2. For intangible assets with finite useful lives, their amortization amounts are amortized within their useful lives systematically and reasonably, if it is unable to determine the expected realization pattern reliably, intangible assets are amortized by the straight-line method with details as follows:

Items	Amortization period (years)
Land use right	50
Patents and proprietary technology	5-10
Commercial software	5
Exploration right	15

3. Expenditures on the research phase of an internal project are recognized as profit or loss when they are incurred. An intangible asset arising from the development phase of an internal project is recognized if the Company can demonstrate all of the followings: (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) its intention to complete the intangible asset and use or sell it; (3) how the intangible asset will generate probable future economic benefits, among other things, the Company can demonstrate the existence of a

market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (4) the availability for adequate financing, financial and other resources to complete the development and to use or sell the intangible asset; and (5) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

#### (XVIII) Impairment of part of long-term assets

For long-term assets such as long-term equity investments, investment property at cost model, fixed assets, construction in progress, productive biological assets at cost model, oil and gas assets, intangible assets with finite useful lives, etc., if at the balance sheet date there is indication of impairment, the recoverable amount is to be estimated. For goodwill recognized in business combinations and intangible assets with indefinite useful lives, no matter whether there is indication of impairment, impairment test is performed annually. Impairment test on goodwill is performed on related asset group or asset group portfolio.

When the recoverable amount of such long-term assets is lower than their carrying amount, the difference is recognized as provision for assets impairment through profit or loss.

#### (XIX) Long-term prepayments

Long-term prepayments are expenses that have been recognized but with amortization period over one year (excluding one year). They are recorded with actual cost, and evenly amortized within the beneficiary period or stipulated period. If items of long-term prepayments fail to be beneficial to the following accounting periods, residual values or surpluses are included in profit or loss.

#### (XX) Employee benefits

1. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

##### 2. Short-term employee benefits

The Company recognizes, in the accounting period in which an employee provides service, short-term employee benefits actually incurred as liabilities, with a corresponding charge to profit or loss or the cost of a relevant asset.

##### 3. Post-employment benefits

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans.

(1) The Company recognizes in the accounting period in which an employee provides service the contribution payable to a defined contribution plan as a liability, with a corresponding charge to profit or loss or the cost of a relevant asset.

(2) Accounting treatment by the Company for defined benefit plan usually involves the following steps:

1) In accordance with the projected unit credit method, using historical and actuarially compatible actuarial assumptions to estimate related demographic variables and financial variables, measure the obligations under the defined benefit plan, and determine the periods to which the obligations are attributed. Meanwhile, the Company discounts obligations under the defined benefit plan to determine the present value of the defined benefit plan obligations and the current service cost;

2) When a defined benefit plan has assets, the Company recognizes the deficit or surplus by deducting the fair value of defined benefit plan assets from the present value of the defined benefit plan obligation as a net defined benefit plan liability or net defined benefit plan asset. When a defined benefit plan has a surplus, the Company measures the net defined benefit plan asset at the lower of the surplus in the defined benefit plan and the asset ceiling;

3) At the end of the period, the Company recognizes the following components of employee benefits cost arising from defined benefit plan: a. service cost; b. net interest on the net defined benefit plan liability (asset); and c. changes as a result of remeasurement of the net defined benefit liability (asset). Item a and item b are recognized in profit or loss or the cost of a relevant asset. Item c is recognized in other comprehensive income and is not to be reclassified subsequently to profit or loss. However, the Company may transfer those amounts recognized in other comprehensive income within equity.

#### 4. Termination benefits

Termination benefits provided to employees are recognized as an employee benefit liability for termination benefits, with a corresponding charge to profit or loss at the earlier of the following dates: a. when the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; or b. when the Company recognizes cost or expenses related to a restructuring that involves the payment of termination benefits.

#### 5. Other long-term employee benefits

When other long-term employee benefits provided to the employees satisfied the conditions for classifying as a defined contribution plan, those benefits are accounted for in accordance with the requirements relating to defined contribution plan, while other benefits are accounted for in accordance with the requirements relating to defined benefit plan. The Company recognizes the cost of employee benefits arising from other long-term employee benefits as the followings: a. service cost; b. net interest on the net liability or net assets of other long-term employee benefits; and c. changes as a result of remeasurement of the net liability or net assets of other long-term employee benefits. As a practical expedient, the net total of the aforesaid amounts is recognized in profit or loss or included in the cost of a relevant asset.

#### (XXI) Provisions

1. Provisions are recognized when fulfilling the present obligations arising from contingencies such as providing guarantee for other parties, litigation, products quality guarantee, onerous

contract, etc., may cause the outflow of the economic benefit and such obligations can be reliably measured.

2. The initial measurement of provisions is based on the best estimated expenditures required in fulfilling the present obligations, and its carrying amount is reviewed at the balance sheet date.

## (XXII) Revenue

### 1. Revenue recognition principles

At contract inception, the Company shall assess the contracts and shall identify each performance obligation in the contracts, and determine whether the performance obligation should be satisfied over time or at a point in time.

The Company satisfies a performance obligation over time if one of the following criteria is met, otherwise, the performance obligation is satisfied at a point in time: (1) the customer simultaneously receives and consumes the economic benefits provided by the Company's performance as the Company performs; (2) the customer can control goods as they are created by the Company's performance; (3) goods created during the Company's performance have irreplaceable uses and the Company has an enforceable right to the payments for performance completed to date during the whole contract period.

For each performance obligation satisfied over time, the Company shall recognize revenue over time by measuring the progress towards complete satisfaction of that performance obligation. In the circumstance that the progress cannot be measured reasonably, but the costs incurred in satisfying the performance obligation are expected to be recovered, the Company shall recognize revenue only to the extent of the costs incurred. For each performance obligation satisfied at a point in time, the Company shall recognize revenue at the time point that the client obtains control of relevant goods or services. To determine whether the customer has obtained control of goods, the Company shall consider the following indications: (1) the Company has a present right to payment for the goods, i.e., the customer is presently obliged to pay for the goods; (2) the Company has transferred the legal title of the goods to the customer, i.e., the customer has legal title to the goods; (3) the Company has transferred physical possession of the goods to the client, i.e., the customer has physically possessed the goods; (4) the Company has transferred significant risks and rewards of ownership of the goods to the client, i.e., the customer has obtained significant risks and rewards of ownership of the goods; (5) the customer has accepted the goods; (6) other evidence indicating the customer has obtained control over the goods.

### 2. Revenue measurement principle

(1) Revenue is measured at the amount of the transaction price that is allocated to each performance obligation. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer,

excluding amounts collected on behalf of third parties and those expected to be refunded to the customer.

(2) If the consideration promised in a contract includes a variable amount, the Company shall confirm the best estimate of variable consideration at expected value or the most likely amount. However, the transaction price that includes the amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(3) In the circumstance that the contract contains a significant financing component, the Company shall determine the transaction price based on the price that a customer would have paid for if the customer had paid cash for obtaining control over those goods or services. The difference between the transaction price and the amount of promised consideration is amortized under effective interest method over contractual period. The effects of ~~the significant financing component shall not~~ be considered if the Company expects, at the contract inception, that the period between when the customer obtains control over goods or services and when the customer pays consideration will be one year or less.

(4) For contracts containing two or more performance obligations, the Company shall determine the stand-alone selling price at contract inception of the distinct good underlying each performance obligation and allocate the transaction price to each performance obligation on a relative stand-alone selling price basis.

### 3. Revenue recognition method

The Company is mainly engaged in sales of compressor products and rendering of geothermal services, etc. Revenue from domestic sales is recognized when the following conditions are satisfied: the Company has delivered goods to the designated address as agreed by contract and such delivered goods have been verified for acceptance by customers; the Company has collected the payments or has obtained the right to the payments; related economic benefits are highly probable to flow to the Company; the main risks and rewards in the ownership of the goods have been transferred; the legal ownership of the goods has been transferred. Revenue from overseas sales is recognized when the following conditions are satisfied: the Company has declared goods to the customs based on contractual documents and has obtained a bill of lading; the Company has collected the payments or has obtained the right to the payments; related economic benefits are highly probable to flow to the Company; the main risks and rewards in the ownership of the goods have been transferred; the legal ownership of the goods has been transferred. Revenue from sales of geothermal electricity is recognized based on electricity output records confirmed by electricity measuring instrument, which are delivered or can be delivered to the purchaser; electricity sales revenue is determined; the Company has collected the payments or has obtained the right to the payments; related economic benefits are highly probable to flow to the Company;

the main risks and rewards in the ownership of the goods have been transferred; the legal ownership of the goods has been transferred.

#### (XXIII) Government grants

1. Government grants shall be recognized if, and only if, the following conditions are all met: (1) the Company will comply with the conditions attaching to the grants; (2) the grants will be received. Monetary government grants are measured at the amount received or receivable. Non-monetary government grants are measured at fair value, and can be measured at nominal amount in the circumstance that fair value cannot be assessed.

#### 2. Government grants related to assets

Government grants related to assets are government grants with which the Company constructs or otherwise acquires long-term assets under requirements of government. In the circumstances that there is no specific government requirement, the Company shall determine based on the primary condition to acquire the grants, and government grants related to assets are government grants whose primary condition is to construct or otherwise acquire long-term assets. They offset carrying amount of relevant assets, or they are recognized as deferred income. If recognized as deferred income, they are included in profit or loss on a systematic basis over the useful lives of the relevant assets. Those measured at notional amount are directly included into profit or loss. For assets sold, transferred, disposed or damaged within the useful lives, balance of unamortized deferred income is transferred into profit or loss of the period in which the disposal occurred.

#### 3. Government grants related to income

Government grants related to income are government grants that are related to assets. For government grants that contain both parts related to assets and parts related to income, in which those two parts are blurred, they are thus collectively classified as government grants related to income. For government grants related to income used for compensating the related future cost, expenses or losses, they are recognized as deferred income and included in profit or loss or used to offset relevant cost during the period in which the relevant cost, expenses or losses are recognized; for government grants related to income used for compensating the related cost, expenses or losses incurred to the Company, they are directly included in profit or loss or used to offset relevant cost.

4. Government grants related to the ordinary course of business shall be included into other income or used to offset relevant cost based on business nature, while those not related to the ordinary course of business shall be included into non-operating revenue or expenditures.

#### (XXIV) Contract assets, contract liabilities

The Company presents contract assets or contract liabilities in the balance sheet based on the relationship between its performance obligations and customers' payments. Contract assets and contract liabilities under the same contract shall offset each other and be presented on a net basis.

The Company presents an unconditional right to consideration (i.e., only the passage of time is

required before the consideration is due) as an asset, and presents a right to consideration in exchange for goods that it has transferred to a customer (which is conditional on something other than the passage of time) as a contract asset.

The Company presents an obligation to transfer goods to a customer for which the Company has received consideration (or the amount is due) from the customer as a contract liability.

#### (XXV) Deferred tax assets/Deferred tax liabilities

1. Deferred tax assets or deferred tax liabilities are calculated and recognized based on the difference between the carrying amount and tax base of assets and liabilities (and the difference of the carrying amount and tax base of assets and liabilities but with their tax base being able to be determined according to tax laws) and in accordance with the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

2. A deferred tax asset is recognized 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. At the balance sheet date, if there is any exact evidence that it is probable that future taxable income will be available against which deductible temporary differences can be utilized, the deferred tax assets unrecognized in prior periods are recognized.

3. At the balance sheet date, the carrying amount of deferred tax assets is reviewed. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of the deferred tax asset to be utilized. Such reduction is subsequently reversed to the extent that it becomes probable that sufficient taxable income will be available.

4. The income tax and deferred tax for the period are treated as income tax expenses or income through profit or loss, excluding those arising from the following circumstances: (1) the transactions or items directly recognized in equity; and (2) the transactions or items directly recognized in equity.

#### (XXVI) Operating leases

When the Company is the lessee, lease payments are recognized as cost or profit or loss with straight-line method over the lease term. Initial expenses are recognized directly into profit or loss. Contingent rents are charged as profit or loss in the periods in which they are incurred.

When the Company is the lessor, lease income is recognized as profit or loss with straight-line method over the lease term. Initial expenses, other than those with material amount and eligible for capitalization which are recognized as profit or loss by installments, are recognized directly as profit or loss. Contingent rents are charged into profit or loss in the periods in which they are incurred.

#### (XXVII) Segment reporting

Operating segments are determined based on the structure of the Company's internal organization, management requirements and internal reporting system. An operating segment is a component of the Company:

1. that engages in business activities from which it may earn revenues and incur expenses;
2. whose financial performance is regularly reviewed by the management to make decisions about resource to be allocated to the segment and to assess its performance; and
3. for which accounting information regarding financial position, financial performance and cash flows is available through analysis.

(XXVIII) Significant changes in accounting policies

1. The Company has adopted "CASBE 14 – Revenues" (hereinafter referred to as the "revised revenue standard") revised by the Ministry of Finance since January 1, 2020. Pursuant to regulations on convergence between original and revised standards, no adjustment shall be made on comparative information, and the difference arising from adoption on the initial adopting date shall be retroactively adjusted into retained earnings and other related financial statement items at the beginning of the reporting period.

Main effects on the financial statements as at January 1, 2020 due to adoption of revised revenue standard are as follows:

Items	Balance sheet		
	Dec. 31, 2019	Effect due to revised revenue standard	Jan. 1, 2020
Advances received	280,023,961.30	-280,023,961.30	
Contract liabilities		268,488,375.54	268,488,375.54
Other current liabilities		11,535,585.96	11,535,585.96

2. The Company has adopted the "Interpretation of China Accounting Standards for Business Enterprises No. 13" issued by the Ministry of Finance in 2019 since January 1, 2020, and the prospective application method is applicable to changes in accounting policies.

#### IV. Taxes

##### (I) Main taxes and tax rates

Taxes	Tax bases	Tax rates
Value-added tax (VAT)	The output tax calculated based on the revenue from sales of goods or rendering of services in accordance with the tax law, net of the input tax that is allowed to be deducted in the current period	13%
Housing property tax	For housing property levied on the basis of price, housing property tax is levied at the rate of 1.2% of the balance after deducting 30% of the cost; for housing property levied on the basis of rent, housing property tax is levied at...	1.2%, 12%

Taxes	Tax bases	Tax rates
	the rate of 12% of rent revenue.	
Urban maintenance and construction tax	Turnover tax actually paid	7%, 1%
Education surcharge	Turnover tax actually paid	3%
Local education surcharge	Turnover tax actually paid	2%
Enterprise income tax	Taxable income	25%, 15%

Different enterprise income tax rates applicable to different taxpayers:

Taxpayers	Income tax rate
Kaishan Kevin Screw Company, Power Tech Screw Company, Chongqing Fluid Machinery Company, Guangdong Ganey Company, Kaishan Refrigeration Company, and Zhejiang Energy Company	15%
Overseas subsidiaries including Taiwan Kaishan Company, Kaishan Hong Kong Company, North America Development Center, Asia-pacific Hong Kong Company, Kaishan Australia, Australia Management Company, America Technologies Company, Kaishan Recycling Company, KS ORKA Company, OME Company, LMF Company, OTP Company, Turawell Geothermal Company, SGL Company, SMGP Company, KCA Company, Kaishan India Company, Eurasia Company, Kaishan Europe and Kaishan Turkey	Applicable to local tax laws
Taxpayers other than the above-mentioned	25%

## (II) Tax preferential policies

1. Pursuant to the Letter of Response on Record of Zhejiang Provincial Hi-tech Enterprise of 2020 numbered Guo Ke Huo Zi [2020] 251 issued by the National Hi-Tech Enterprise Accreditation Administration Leading Group Office, the subsidiary Kaishan Kevin Screw Company passed the hi-tech enterprise qualification re-identification in December 2020. The qualification is valid for three years from January 1, 2020 to December 31, 2022, during which, this subsidiary is entitled to enjoy the income tax preferential policies. Its enterprise income tax was levied at 15% in 2020.

2. Pursuant to the Hi-tech Accreditation Administration Measures numbered Guo Ke Fa Huo [2016] 32 and the Hi-tech Accreditation Administration Guidance numbered Guo Ke Fa Huo [2016] 195, the subsidiary Power Tech Screw Company passed the hi-tech enterprise qualification certification in October 2019. The qualification is valid for three years from January 1, 2019 to December 31, 2021, during which, this subsidiary is entitled to enjoy the income tax preferential policies. Its enterprise income tax was levied at 15% in 2020.

3. Pursuant to the Letter of Response on Record of Chongqing Municipality Second Batch of Hi-tech Enterprise of 2020 numbered Guo Ke Huo Zi [2021] 14 issued by the National Hi-Tech Enterprise Accreditation Administration Leading Group Office, the subsidiary Chongqing Fluid Machinery Company passed the hi-tech enterprise qualification re-identification in December 2020. The qualification is valid for three years from January 1, 2020 to December 31, 2022,

during which, this subsidiary is entitled to enjoy the income tax preferential policies. Its enterprise income tax was levied at 15% in 2020.

4. Pursuant to the Letter of Response on Record of Third Batch of Guangdong Provincial High-tech Enterprises of 2020, the subsidiary Guangdong Ganey passed the hi-tech enterprise qualification review in December 2020. The qualification is valid for three years from January 1, 2020 to December 31, 2022, during which, this subsidiary is entitled to enjoy the income tax preferential policies. Its enterprise income tax was levied at 15% in 2020.

5. Pursuant to the Circular on Shanghai Municipal Third Batch of Hi-Tech Enterprise of 2018 numbered issued by the Shanghai Hi-Tech Enterprise Accreditation Leading Group, the subsidiary Kaishan Refrigeration Company passed the hi-tech enterprise qualification identification in November 2018. The qualification is valid for three years from January 1, 2018 to December 31, 2020, during which, this subsidiary is to enjoy the income tax preferential policies. Its enterprise income tax was levied at 15% in 2020.

6. Pursuant to the Hi-tech Accreditation Administration Measures numbered Guo Ke Fa Huo [2016] 32 and the Hi-tech Accreditation Administration Guidance numbered Guo Ke Fa Huo [2016] 195, the subsidiary Shanghai Energy Company passed the hi-tech enterprise qualification certification in October 2019. The qualification is valid for three years from January 1, 2019 to December 31, 2021, during which, this subsidiary is entitled to enjoy the income tax preferential policies. Its enterprise income tax was levied at 15% in 2020.

7. Pursuant to the Letter of Response on Record of Zhejiang Provincial Hi-tech Enterprise of 2020 numbered Guo Ke Huo Zi [2020] 251 issued by the National Hi-tech Enterprise Accreditation Administration Leading Group Office, the subsidiary Zhejiang Energy Company passed the hi-tech enterprise qualification identification in December 2020. The qualification is valid for three years from January 1, 2020 to December 31, 2022, during which, this subsidiary is entitled to enjoy the income tax preferential policies. Its enterprise income tax was levied at 15% in 2020.

## V. Notes to items of consolidated financial statements

Remarks: "Opening balance" in this report refers to balances as at January 1, 2020 after the adjustments of balances as at December 31, 2019 under the revised revenue standard.

### (I) Notes to items of the consolidated balance sheet

#### 1. Cash and bank balances

Items	Closing balance	Opening balance
Cash on hand	270,590.35	548,504.34
Cash in bank	1,440,348,425.96	438,287,219.05
Other cash and bank balances	278,042,599.21	171,629,676.44
Total	1,718,661,615.52	610,465,399.83



(2) Pledged notes at the balance sheet date

Items	Closing balance of pledged notes
Bank acceptance	490,843,737.37
Subtotal	490,843,737.37

(3) Endorsed or discounted but undue notes at the balance sheet date

Items	Closing balance derecognized	Closing balance not yet derecognized
Bank acceptance	195,645,147.68	
Subtotal	195,645,147.68	

Due to the fact that the acceptor of bank acceptance is commercial bank, which is of high credit level, there is very little possibility of failure in recoverability when it is due. Based on this fact, the Company derecognized the endorsed or discounted bank acceptance. However, if any bank acceptance is not recoverable when it is due, the Company still holds joint liability on such acceptance, according to the China Commercial Instrument Law.

3. Accounts receivable

(1) Details

1) Details on categories

Categories	Closing balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on an individual basis	66,166,304.93	9.18	66,166,304.93	100.00	
Receivables with provision made on a collective basis	615,297,780.68	90.82	93,417,311.40	14.28	560,880,469.28
Total	720,464,085.61	100.00	159,583,616.33	22.15	560,880,469.28

(Continued)

Categories	Opening balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on an individual basis	57,919,520.07	8.03	57,919,520.07	100.00	
Receivables with provision made on a collective basis	663,513,335.74	91.97	89,397,934.15	13.47	574,115,401.59

Categories	Opening balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Total	721,432,855.81	100.00	147,317,427.82	20.42	574,115,427.99

2) Accounts receivable with provision made on an individual basis

Debtors	Book balance	Provision for bad debts	Provision proportion (%)	Reasons
Receivables with provision made on an individual basis	66,166,304.93	66,166,304.93	100.00	Expected to be irrecoverable
Subtotal	66,166,304.93	66,166,304.93	100.00	

3) Accounts receivable with provision made on a collective basis using age analysis method

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	451,932,099.07	22,596,604.88	5.00
1-2 years	85,373,334.01	8,537,333.40	10.00
2-3 years	44,127,323.20	6,619,098.48	15.00
3-4 years	24,827,978.41	12,413,989.21	50.00
4-5 years	15,955,868.55	11,169,107.99	70.00
Over 5 years	32,000,000.00	32,000,000.00	100.00
Subtotal	654,297,780.68	93,417,311.40	14.28

(2) Age analysis

Ages	Closing balance
Within 1 year	456,911,327.42
1-2 years	88,994,738.11
2-3 years	46,367,554.43
3-4 years	29,219,316.59
4-5 years	21,823,005.16
Over 5 years	77,148,063.90
Total	720,464,085.61

(3) Changes in provision for bad debts

Items	Opening balance	Increase			Decrease			Closing balance
		Accrual	Recovery	Others	Reversal	Write-off	Others	
Receivables with provision made on an individual basis	57,919,520.07	8,496,784.86	-250,000.00					66,166,304.93
Receivables with provision made on a collective basis	89,397,907.75	8,510,005.61				4,490,601.96		93,417,311.40

Items	Opening balance	Increase			Decrease		Closing balance
		Accrual	Recovery	Others	Reversal	Write-off	
Subtotal	147,317,427.82	17,006,790.47	-250,000.00			4,490,601.96	159,583,616.33

(4) Accounts receivable written off in current period

Accounts receivable actually written off in current period, a total of 490,601.96 yuan.

(5) Details of the top 5 debtors with largest balances

Debtors	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
PT PLN (PERSERO)	24,882,290.25	3.45	1,244,114.51
上海联风能源科技有限公司 (Shanghai Lianfeng Energy Technology Co., Ltd.*)	15,685,000.00	2.18	784,250.00
新疆信汇峡清洁能源有限公司 (Xinjiang Xinhuixia Clean Energy Co., Ltd.*)	14,432,250.00	2.03	721,612.50
LMF Gulf Pneumatics	10,364,611.65	1.48	845,871.79
开山 (北京) 通用机械有限公司 (Kaishan (Beijing) General Machinery Co., Ltd.)	8,317,076.81	1.15	415,853.84
Subtotal	74,171,928.71	10.20	5,483,532.64

#### 4. Advances paid

(1) Age analysis

Ages	Closing balance				Opening balance			
	Book balance	% to total	Provision for impairment	Carrying amount	Book balance	% to total	Provision for impairment	Carrying amount
Within 1 year	87,672,371.20	90.54		87,672,371.20	76,675,500.80	90.66		76,675,500.80
1-2 years	5,165,899.46	5.34		5,165,899.46	2,105,861.84	3.09		2,105,861.84
2-3 years	350,070.45	0.36		350,070.45	925,004.78	1.36		925,004.78
Over 3 years	3,641,812.72	3.76		3,641,812.72	3,335,904.57	4.89		3,335,904.57
Total	94,820,153.83	100.00		94,820,153.83	84,042,271.99	100.00		84,042,271.99

(2) Details of the top 3 debtors with largest balances

Debtors	Book balance	Proportion to the total balance of advances paid (%)
广西玉柴机器股份有限公司 (Guangxi Yuchai Machinery Co., Ltd.*)	8,225,478.22	8.49
苏州纽威阀门股份有限公司 (Suzhou Newway Valve Co., Ltd.*)	4,861,642.20	5.05
上海标奇压缩机配套工程有限公司	4,677,565.99	4.83

\* The English names are for identifying purpose only.

Debtors	Book balance	Proportion to the total balance of advances paid (%)
司 (Shanghai Biaoqi Compressor Supporting Engineering Co., Ltd.)* 上海泛赋化工科技有限公司 (Shanghai Fanfu Chemical Tech	4,109,274.87	4.26
上海电气集团上海电机厂有限公司 (Shanghai Electric Group Shanghai Electric Mach	2,760,000.00	2.85
Subtotal	24,659,107.84	25.46

## 5. Other receivables

### (1) Details

#### 1) Details on categories

Categories	Closing balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis	33,524,851.01				
Total	33,524,851.01	100.00	2,071,814.34	6.18	31,453,036.67

(Continued)

Categories	Opening balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis	30,437,158.66	100.00	2,876,059.03	9.45	27,561,099.63
Total	30,437,158.66	100.00	2,876,059.03	9.45	27,561,099.63

#### 2) Other receivables with provision made on a collective basis

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Portfolio grouped with ages			
Including: Within 1 year	31,433,461.16	1,571,672.85	5.00
1-2 years	1,406,352.69	140,635.27	10.00
2-3 years	332,434.52	49,865.18	15.00

\* The English names are for identification purpose only.

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
3-4 years	2,000.00	1,000.00	50.00
4-5 years	139,872.00	97,910.40	70.00
Over 5 years	210,730.64	210,730.64	100.00
Subtotal	33,524,851.01	2,071,814.34	6.18

(2) Changes in provision for bad debts

Items	Phase I	Phase II	Phase III	Subtotal
	12-month expected credit losses	Lifetime expected credit losses (credit not impaired)	Lifetime expected credit losses (credit impaired)	
Opening balance	954,096.51	819,116.94	1,102,845.58	2,876,059.03
Opening balance in the current period				
--Transferred to phase II	-70,317.63	70,317.63		
--Transferred to phase III		-33,243.45	33,243.45	
--Reversed to phase II				
--Reversed to phase I				
Provision made in the current period	687,893.97	-715,555.85	-776,582.81	-804,244.69
Provision recovered in current period				
Provision reversed in current period				
Provision written off in current period				
Other changes				
Closing balance	1,571,672.85	140,635.27	359,506.22	2,071,814.34

(3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Security deposits	12,982,358.88	8,051,491.00
Export tax refund receivable	8,571,545.75	7,240,108.18
Temporary advance payment receivable	11,970,946.38	15,145,559.48
Total	33,524,851.01	30,437,158.66

(4) Details of the top 5 debtors with largest balances

Debtors	Nature of receivables	Book balance	Ages	Proportion to the total balance of other receivables (%)	Provision for bad debts
Southern California Public Power Authority	Security deposits	8,822,643.54	Within 1 year	26.32	441,132.18
Export tax refund receivable	Export tax refund receivable	8,571,545.75	Within 1 year	25.57	428,577.29
ATB Schorch GmbH	Temporary advance payment receivable	2,595,362.20	Within 1 year	7.74	129,768.11
Ningbo Customs Field Service	Security deposits	1,320,000.00	Within 1 year	3.94	66,000.00
Austrian Revenue Authority	Temporary advance payment receivable	961,143.02	Within 1 year	2.87	48,057.15
Subtotal		22,270,691.51		66.44	1,114,554.73

6. Inventories

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for write-down	Carrying amount	Book balance	Provision for write-down	Carrying amount
Raw materials	525,081,277.82	20,127,002.41	504,954,275.41	481,085,915.69	15,839,733.99	465,246,181.70
Work in process	231,396,707.66	5,489,934.33	225,906,773.33	278,622,986.99	7,940,332.61	270,682,654.38
Goods on hand	437,255,620.17	13,362,211.55	423,893,408.62	378,552,064.67	15,337,779.79	363,214,284.88
Revolving materials	21,238,500.73		21,238,500.73	15,723,853.83	152,563.25	15,571,290.58
Total	1,214,972,106.38	38,979,148.29	1,175,992,958.09	1,153,984,821.18	39,270,409.64	1,114,714,411.54

(2) Provision for inventory write-down

Items	Opening balance	Increase		Decrease		Closing balance
		Accrual	Others	Reversal or write-off	Others	
Raw materials	15,839,733.99	16,664,757.60		12,577,307.88		20,127,002.41
Work in process	7,940,332.61	639,447.03		3,089,845.31		5,489,934.33
Goods on hand	15,337,779.79	3,856,670.38		5,832,238.62		13,362,211.55
Revolving materials	152,563.25			152,563.25		
Subtotal	39,270,409.64	21,160,693.71		21,451,955.06		38,979,148.29

Please refer to section III (XI) 3 of the notes to the financial statements for details on determination basis of net realizable value. Decrease of provision for inventory write-down

written off due to sales or requisitions.

#### 7. Other current assets

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Input VAT to be credited	28,492,163.36		28,492,163.36	28,654,024.90		28,654,024.90
Prepaid taxes	1,234,729.08		1,234,729.08			
Total	29,726,892.44		29,726,892.44	30,761,151.23		30,761,151.23

#### 8. Long-term equity investments

##### (1) Categories

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investments in associates	90,320,499.81		90,320,499.81	79,868,353.86		79,868,353.86
Total	90,320,499.81		90,320,499.81	79,868,353.86		79,868,353.86

##### (2) Details

Investees	Opening balance	Increase/Decrease			
		Investments increased	Investments decreased	Investment income recognized under equity method	Adjustment in other comprehensive income
Associates					
浙江开山银轮换热器有限公司 (Zhejiang Kaishan Yinlun Heat Exchanger Co., Ltd.*, hereinafter referred to as "Kaishan Yinlun Company")	43,453,857.50			10,608,029.10	
浙江卧龙开山电机有限公司 (Zhejiang Wolong Kaishan Motor Co., Ltd.* hereinafter referred to as "Kaishan Wolong Company")	35,413,102.14			308,049.39	
上海开弘节能科技有限公司 (Shanghai Kaihong Energy-saving Technology Co., Ltd.) [Note]					
开山安葆股份有限公司 (Kaishan Anbao Co., Ltd.*)	463,932.54		463,932.54		
Beteiligung OOO LMF RUS	537,461.68				
Total	79,868,353.86		463,932.54	10,916,078.49	

(Continued)

\* The English names are for identification purpose only.

Investees	Increase/Decrease				Closing balance	Closing balance of provision for impairment
	Changes in other equity	Cash dividend/ Profit declared for distribution	Provision for impairment	Others		
Associates						
Zhejiang Kaishan Yinlun Heat Exchanger Co., Ltd.					54,061,886.60	
Zhejiang Kaishan Motor Co., Ltd.					55,721,151.53	
Shanghai Kaihong Energy-saving Technology Co., Ltd. [Note]						
Kaishan Anbao Co., Ltd.						
Beteiligung OOO LMF RUS					537,461.68	
Total					90,320,499.81	

Note: The carrying amount is 0 due to excess losses.

## 9. Fixed assets

### (1) Details

Items	Buildings and structures	General equipment	Special equipment	Transport facilities	Other equipment	Total
Cost						
Opening balance	645,264,341.54	171,848,473.60	2,375,421,745.89	36,955,689.32	8,166,516.63	3,237,656,766.98
Increase	3,524,666.98	6,872,967.58	25,422,122.75	4,080,368.13	872,595.85	40,772,721.29
1) Acquisition	2,722,980.68	5,777,497.57	76,007,445.00	4,216,213.09	882,307.02	89,606,443.36
2) Transferred in from construction in progress	1,019,994.87		62,722,471.23			63,742,466.10
3) Translation reserve	-218,308.57	1,095,470.01	-113,307,793.48	-135,844.96	-9,711.17	-112,576,188.17
Decrease		3,114,309.98	7,725,043.98	2,227,430.35		13,066,784.31
1) Disposal/scrapping		3,114,309.98	7,725,043.98	2,227,430.35		13,066,784.31
2) Translation reserve						
Closing balance	648,789,008.52	175,607,131.20	2,393,118,824.66	38,808,627.10	9,039,112.48	3,265,362,703.96
Accumulated depreciation						
Opening balance	252,930,213.50	131,292,636.39	723,691,894.98	21,755,883.62	5,060,363.76	1,134,730,992.25
Increase	30,483,827.45	13,680,128.73	116,058,669.34	6,691,845.27	623,130.63	167,537,601.42
1) Accrual	28,494,536.44	12,723,226.81	114,683,422.59	6,458,872.55	626,047.03	166,444,590.03
2) Translation reserve	1,989,291.01	1,357,241.92	-2,483,584.06	232,972.72	-2,910.40	1,093,011.80
Decrease		3,002,860.32	6,772,605.23	1,729,228.24		11,504,693.79
1) Disposal/scrapping		3,002,860.32	6,772,605.23	1,729,228.24		11,504,693.79
2) Translation reserve						
Closing balance	283,414,040.95	141,969,904.80	832,977,959.09	26,718,500.65	5,683,494.39	1,290,763,899.88
Carrying amount						
Closing balance	365,374,967.57	33,637,226.40	1,560,140,865.57	12,090,126.45	3,355,618.09	1,974,598,804.08
Opening balance	392,334,128.04	40,555,837.21	1,651,729,850.91	15,199,805.70	3,106,152.87	2,102,925,774.73

### (2) Fixed assets with certificate of titles being unsettled

Items	Carrying amount	Reasons for unsettlement
Buildings and structures	47.32 million yuan	Not yet processed
Subtotal	47.32 million yuan	

10. Construction in progress

(1) Details

Items	Closing balance	Opening balance
Construction in progress	3,774,565,022.56	2,452,598,842.54
Construction materials	42,534,905.37	40,182,797.31
Total	3,817,099,927.93	2,492,781,639.85

(2) Construction in progress

1) Details

Projects	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Geothermal project of SMGP Company in Indonesia	2,684,273,528.34		2,684,273,528.34	1,713,776,265.74		1,713,776,265.74
Geothermal project of SGI Company in Indonesia	646,951,102.06		646,951,102.06	584,194,246.02		584,194,246.02
Geothermal project phase I of OME Company in USA	377,522,103.36		377,522,103.36	69,694,408.22		69,694,408.22
Other piecemeal projects	65,818,288.80		65,818,288.80	84,933,922.56		84,933,922.56
Subtotal	3,774,565,022.56		3,774,565,022.56	2,452,598,842.54		2,452,598,842.54

2) Changes in significant projects

Projects	Budgets	Opening balance	Increase	Translation reserve	Other decrease	Transferred to fixed assets	Closing balance
Geothermal project of SMGP Company in Indonesia	USD 940 million	1,713,776,265.74	1,124,824,406.39	-154,327,143.79			2,684,273,528.34
Geothermal project of SGI Company in Indonesia	USD 134.44 million	584,194,246.02	104,631,709.69	-41,777,012.56			646,951,102.06
Geothermal project phase I of OME Company in USA	USD 78 million	69,694,408.22	324,468,480.61	-15,908,014.59		732,770.88	377,522,103.36
Other piecemeal projects		84,933,922.56	47,160,159.77	-3,266,1528.31		63,009,695.22	65,818,288.80
Subtotal		2,452,598,842.54	1,600,987,845.37	-215,279,199.25		63,742,466.10	3,774,565,022.56

(Continued)

Projects	Accumulated input to budget (%)	Completion percentage (%)	Accumulated amount of borrowing cost capitalization	Amount of borrowing cost capitalization in current period	Annual capitalization rate (%)	Fund source
Geothermal project of SMGP Company in Indonesia	62.00	60.00	179,525,033.80	60,925,587.55	3.24	Self-raised fund/ Raised fund
Geothermal project of SGI Company in Indonesia	73.75	70.00	11,446,971.84	7,929,599.98	3.65	Self-raised fund
Geothermal project phase I of OME	95.25	95.00	2,996,785.19	2,996,785.19	2.38	Self-raised fund

Projects	Accumulated input to budget (%)	Completion percentage (%)	Accumulated amount of borrowing cost capitalization	Amount of borrowing cost capitalization in current period	Annual capitalization rate (%)	Fund source
Company in USA						
Other piecemeal projects						Self-raised fund
Subtotal			193,968,790.83	71,851,972.72		

(3) Construction materials

Items	Closing balance	Opening balance
Special materials	42,534,905.37	40,182,797.31
Subtotal	42,534,905.37	40,182,797.31

11. Intangible assets

Items	Land use right	Patent right and proprietary technology	Exploration right	Commercial software	Total
<b>Cost</b>					
Opening balance	280,142,786.31	8,042,100.00		26,316,572.53	314,501,458.84
Increase	10,712,260.16		51,811,463.36	1,484,688.51	64,068,412.03
1) Acquisition	16,436,603.26		51,811,463.36	1,214,413.39	69,462,480.01
2) Translation reserve	-5,724,343.10			270,275.12	-5,454,067.98
Decrease				2,603,773.36	2,603,773.36
1) Disposal				2,603,773.36	2,603,773.36
2) Translation reserve					
Closing balance	290,855,046.47	8,042,100.00	51,811,463.36	25,197,487.68	375,906,097.51
<b>Accumulated amortization</b>					
Opening balance	33,224,605.98	8,042,100.00		22,090,843.52	63,357,549.50
Increase	3,994,438.34		3,454,097.54	1,891,239.48	9,339,775.36
1) Accrual	3,994,438.34		3,454,097.54	1,571,318.84	9,019,854.72
2) Translation reserve				319,920.64	319,920.64
Decrease				2,603,773.36	2,603,773.36
1) Disposal				2,603,773.36	2,603,773.36
2) Translation reserve					
Closing balance	37,219,044.32	8,042,100.00	3,454,097.54	21,378,309.64	70,093,551.50
Closing carrying amount	253,636,002.15		48,357,365.82	3,819,178.04	305,812,546.01
Opening carrying amount	246,918,180.33			4,225,729.01	251,143,909.34

## 12. Goodwill

### (1) Cost

Investee or events resulting in goodwill	Opening balance	Due to business combination in current period	Decrease	Closing balance
Kaishan Australia	25,917,059.14			25,917,059.14
Guangdong Ganey Company	12,129,784.35			12,129,784.35
LMF Company	202,114,854.78			202,114,854.78
KS ORKA Company	14,998,864.17			14,998,864.17
SGL Company	916,788.36			916,788.36
Total	256,077,350.80			256,077,350.80

### (2) Provision for impairment

Investees or events resulting in goodwill	Opening balance	Increase	Decrease	Closing balance
LMF Company	33,897,691.05	9,496,845.75		43,394,536.80
Subtotal	33,897,691.05	9,496,845.75		43,394,536.80

### (3) Impairment test process

The recoverable amount of goodwill is computed based on the present value of estimated future cash flows, which is based on the estimated 5-year cash flows approved by the Company. The discount rate used in estimating the 5-year cash flows is 8.51%, and the cash flows subsequent to the estimated period are inferred by a growth rate of 0.7%, which is in line with the overall long-term average growth rate in the mining industry.

Other key data used in the impairment test include: the estimated selling price, sales volume, cost of product, and other relevant expenses.

Such key data are determined by the Company based on its experience and its prediction towards market development. The discount rate used by the Company is the pre-tax interest rate that reveals the time value of currency under the current market situation and risks of certain assets portfolio.

The estimation of the recoverable amount of goodwill based on the aforementioned method suggests that, after test, goodwill impairment loss of LMF Company that shall be recognized in the current period amounted to 9,496,845.75 yuan.

13. Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets before offset

Items	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Provision for impairment of assets	109,467,142.68	25,479,644.03	95,341,911.40	23,372,951.12
Unrealized profit from internal transactions	616,988,568.71	97,718,977.51	479,868,701.55	74,144,549.82
Expenses to be paid	12,152,980.36	3,038,245.09	7,395,591.44	1,848,897.86
Total	738,608,691.75	120,236,796.43	582,606,204.39	99,366,198.80

(2) Deferred tax liabilities before offset

Items	Closing balance		Opening balance	
	Taxable temporary difference	Deferred tax liability	Taxable temporary difference	Deferred tax liability
Accelerated depreciation of fixed assets	50,208,199.11	9,011,264.01	35,197,742.97	5,904,362.17
Total	50,208,199.11	9,011,264.01	35,197,742.97	5,904,362.17

(3) Details of unrecognized deferred tax assets

Items	Closing balance	Opening balance
Provision for impairment of assets	91,167,436.28	94,121,985.09
Deductible losses	47,930,212.62	44,647,158.75
Subtotal	139,097,648.90	138,769,143.84

(4) Maturity years of deductible losses of unrecognized deferred tax assets

Maturity years	Closing balance	Opening balance	Remarks
Year 2020		977,224.61	
Year 2021	4,329,055.76	4,817,083.54	
Year 2022	7,959,722.92	8,618,191.11	
Year 2023	3,218,643.75	4,076,077.30	
Year 2024	14,400,306.27	25,538,642.19	
Year 2025	18,022,483.92		
Subtotal	47,930,212.62	44,047,158.75	

14. Other non-current assets

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Prepayment for engineering equipment	123,372,107.26		123,372,107.26	89,781,960.63		89,781,960.63
Permission for exploration and development of geothermal energy	6,524,900.00		6,524,900.00	6,976,200.00		6,976,200.00
Pledge of time deposit certificate for more than one year	173,200,000.00		173,200,000.00			
Total	303,097,007.26		303,097,007.26	96,758,160.63		96,758,160.63

15. Short-term borrowings

Items	Closing balance	Opening balance
Mortgaged borrowings	14,886,546.19	
Guaranteed borrowings	590,503,938.36	250,209,343.75
Credit borrowings	717,383,708.01	493,207,785.52
Borrowings with notes or letters of credit as collateral	502,151,778.13	230,506,518.72
Total	1,824,925,970.69	973,923,647.99

16. Notes payable

Items	Closing balance	Opening balance
Bank acceptance	813,578,272.88	503,903,028.80
Total	813,578,272.88	503,903,028.80

17. Accounts payable

(1) Details

Items	Closing balance	Opening balance
Payment for goods	815,257,480.97	480,110,701.41
Payment for engineering and equipment	266,020,893.51	235,500,089.52
Total	1,081,278,374.48	715,610,790.93

(2) No material balance with age over one year

18. Advances received

Please refer to section III (XXVIII) 1 of the notes to financial statements for difference between opening balance and balance as at December 31, 2019.

19. Contract liabilities

Items	Closing balance	Opening balance [Note]
Advanced payments for goods	359,209,236.56	268,488,375.54
Total	359,209,236.56	268,488,375.54

Note: Please refer to section III (XXVIII) 1 of the notes to financial statements for differences between opening balance and balance as at December 31, 2019.

20. Employee benefits payable

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	22,576,200.89	515,931,766.98	503,505,229.32	33,002,738.55
Post-employment benefits - defined contribution plan	7,346,930.53	3,428,639.94	6,370,113.81	4,405,456.66
Total	29,923,131.42	519,360,406.92	509,875,343.13	39,408,195.21

(2) Details of short-term employee benefits

Items	Opening balance	Increase	Decrease	Closing balance
Wage, bonus, allowance and subsidy	21,997,493.36	485,119,471.95	472,780,905.26	34,336,060.05
Employee welfare		9,757,312.51	9,757,312.51	
Social insurance premium	501,154.40	12,807,554.91	12,642,030.81	666,678.50
Including: Medicare premium	490,633.81	12,255,558.95	12,084,703.13	661,489.63
Occupational injuries premium	5,451.78	194,330.50	195,741.83	4,040.45
Maternity premium	5,068.81	357,665.46	361,585.85	1,148.42
Housing provident fund		3,881,448.34	3,881,448.34	
Trade union fund	77,553.13	3,855,971.49	3,933,524.62	
Employee education fund		316,007.78	316,007.78	
Subtotal	22,576,200.89	515,931,766.98	503,505,229.32	33,002,738.55

(3) Details of defined contribution plan

Items	Opening balance	Increase	Decrease	Closing balance
Basic endowment insurance premium	7,343,722.44	3,315,045.28	6,255,264.63	4,403,503.09
Unemployment insurance premium	3,208.09	113,594.66	114,849.18	1,953.57
Subtotal	7,346,930.53	3,428,639.94	6,370,113.81	4,405,456.66

21. Taxes and rates payable

Items	Closing balance	Opening balance
Enterprise income tax	15,388,362.81	14,767,077.72
VAT	15,418,198.90	8,181,351.72
Land use tax	2,538,505.04	1,049,504.80

Items	Closing balance	Opening balance
Housing property tax	1,933,281.68	1,762,468.21
Individual income tax withheld for tax authorities	1,439,984.94	1,200,164.87
Urban maintenance and construction tax	579,643.79	287,710.68
Education surcharge	333,240.91	289,951.62
Local education surcharge	222,160.93	193,301.08
Stamp duty, etc.	363,188.33	96,199.96
Total	38,216,466.33	27,827,700.66

## 22. Other payables

### (1) Details

Items	Closing balance	Opening balance
Dividend payable	693,312.52	693,312.52
Other payables	36,375,852.59	38,825,905.34
Total	37,069,165.11	39,519,217.86

### (2) Dividend payable

Items	Closing balance	Opening balance
Dividend payable to non-controlling shareholder of subsidiaries	693,312.52	693,312.52
Subtotal	693,312.52	693,312.52

### (3) Other payables

#### 1) Details

Items	Closing balance	Opening balance
Temporary receipts payable	15,661,670.19	14,940,614.85
Security deposits	10,612,240.79	11,393,237.48
Others	10,101,941.61	12,492,055.01
Subtotal	36,375,852.59	38,825,905.34

2) No significant balance with age over one year.

## 23. Non-current liabilities due within one year

Items	Closing balance	Opening balance
Long-term borrowings due within one year	221,135,366.84	154,583,748.64
Total	221,135,366.84	154,583,748.64

24. Other current liabilities

Items	Closing balance	Opening balance [Note]
Output tax to be debited	20,789,820.37	11,535,585.96
Total	20,789,820.37	11,535,585.96

Note: Please refer to the section III (XXVIII) 1 of the notes to the financial statements for difference between opening balance and balance as at December 31, 2019.

25. Long-term borrowings

Items	Closing balance	Opening balance
Guaranteed and pledged borrowings	1,354,179,493.15	1,660,322,395.42
Credit borrowings	148,194,272.23	50,061,750.00
Mortgaged borrowings	205,931,805.88	33,869,546.80
Total	1,708,845,571.62	1,764,264,148.31

26. Long-term employee benefits payable

(1) Details

Items	Closing balance	Opening balance
Post-employment benefits - net defined benefit liability	38,903,541.24	33,933,932.01
Total	38,903,541.24	33,933,932.01

(2) Movements in defined benefit plan

Items	Current period cumulative	Preceding period comparative
Opening balance	33,933,932.01	31,127,582.16
Defined benefit costs recognized in profit or loss	6,573,625.43	4,235,386.56
Benefit paid	1,404,016.20	1,429,236.71
Closing balance	38,903,541.24	33,933,932.01

27. Provisions

Items	Closing balance	Opening balance	Reasons for balance
Disposal expenses	2,705,575.88	2,812,964.29	Future disposal expenses for government projects
Total	2,705,575.88	2,812,964.29	

28. Deferred income

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance	Reasons for balance
Government grants	22,367,900.00	500,000.00	3,468,861.54	19,399,038.46	Related to assets
Government grants	7,965,000.00			7,965,000.00	Related to income
Total	30,332,900.00	500,000.00	3,468,861.54	27,364,038.46	

(2) Details of government grants

Items	Opening balance	Increase	Grants included into profit or loss or offsetting relevant cost [Note]	Closing balance	Related to assets/income
Project with annual production of 50 KSG series large-scale processing gas screw compressors	2,480,000.00		620,000.00	1,860,000.00	Related to assets
Project with annual production of 2000 sets of high-efficiency and energy-saving screw vacuum pumps and 5000 sets of high-efficiency and energy-saving screw blowers	6,237,900.00		860,400.00	5,377,500.00	Related to assets
Project with annual production of 500000 KW/1000 sets of screw expander generator unit	13,650,000.00	500,000.00	1,088,461.54	13,161,538.46	Related to assets
The breakthrough project of the world's first 4.3MW, 5.4MW and 6.5MW geothermal steam screw generator unit	7,965,000.00			7,965,000.00	Related to income
Subtotal	30,332,900.00	500,000.00	3,468,861.54	27,364,038.46	

Note: Please refer to section V (IV) 3 of notes to financial statements for details on government grants included into profit or loss or offsetting relevant cost.

(3) Other remarks

Current increase of 500,000 yuan is the receipt of project subsidies of 500,000 yuan from Zhejiang Provincial Department of Finance (which is the balance of total government grant of 20 million yuan) in 2020 in accordance with the Notice of Zhejiang Development and Reform Commission

on Issuing the Investment Plan in the Central Budget of Strategic Emerging Industries (Energy Conservation and Environmental Protection) Projects in 2015 (Zhe Fa Gai Tou Zi [2015] No. 397), which shall be amortized according to the useful lives of related assets

## 29. Share capital

### (1) Details

Items	Opening balance	Movements					Closing balance
		Issue of new shares	Bonus shares	Reserve transferred to shares	Others	Subtotal	
Total shares	858,000,000	135,635,018				135,635,018	993,635,018

### (2) Change of share capital

Pursuant to the resolutions of the 13<sup>th</sup> meeting of the fourth session of the Board of Directors, the first extraordinary shareholders' meeting of 2020, and under the approval of the document numbered Zheng Jian Xu Ke [2020] 2084 issued by China Securities Regulatory Commission, the Company was permitted to privately issue RMB ordinary shares (A shares) of 135,635,018 shares to 开山控股集团股份有限公司 (Kaishan Holding Group Co., Ltd., hereinafter referred to as "Kaishan Group") (each with par value of one yuan), with issuing price of 8.11 yuan per share

The fund raised thereof totaled 1,099,999,995.98 yuan, and after deducting the issuing cost of 27,026,586.96 yuan, the net amount of raised fund totaled 1,072,973,409.02 yuan, among which, 135,635,018.00 yuan was included into the share capital, and 937,338,391.02 yuan included into capital reserve (share premium). Such capital increase was verified by Pan-China Certified Public Accountants LLP and a capital verification report number of CPAC-VR [2020] 0397 was issued thereon.

## 30. Capital reserve

### (1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Share premium	1,490,478,854.86	937,338,391.02		2,427,817,245.88
Total	1,490,478,854.86	937,338,391.02		2,427,817,245.88

### (2) Remarks on changes in capital reserve

Current increase of share premium totaled 937,338,391.02 yuan. Please refer to section V (I) 29 of the notes to the financial statements for details.

\* The English name is for identification purpose only.

### 31. Other comprehensive income (OCI)

Items	Opening balance	Current period cumulative					Attributable to non-controlling shareholders	Closing balance
		Current period cumulative before income tax	Less: OCI previously recognized but transferred to profit or loss in current period	Less: OCI previously recognized but transferred to retained earnings in current period	Less: Income	Attributable to parent company		
Items to be reclassified subsequently to profit or loss	97,182,394.97	-184,892,959.69				-178,851,724.19	-6,041,235.50	-81,669,329.22
Including: Translation reserves	97,182,394.97	-184,892,959.69				-178,851,724.19	-6,041,235.50	-81,669,329.22
Total	97,182,394.97	-184,892,959.69				-178,851,724.19	-6,041,235.50	-81,669,329.22

### 32. Surplus reserve

#### (1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	217,408,024.69	27,665,732.10		245,073,756.79
Total	217,408,024.69	27,665,732.10		245,073,756.79

(2) Current increase is due to the appropriation of the statutory surplus reserve at 10% of the net profit generated by the parent company in 2020, according to the profit distribution proposal of 2020 approved by the 22<sup>nd</sup> meeting of the fourth session of the Board of Directors dated April 4, 2021.

### 33. Undistributed profit

Items	Current period cumulative	Preceding period comparative
Balance before adjustment at the end of preceding period	933,569,817.88	932,569,817.88
Add: Increase due to adjustment (or less: decrease)		625,961.54
Opening balance after adjustment	933,569,817.88	933,195,779.42
Add: Net profit attributable to owners of the parent company	256,002,991.93	152,522,160.42
Less: Appropriation of statutory surplus reserve	27,665,732.10	26,147,977.29
Dividend on ordinary shares that converted into share capital		85,800,000.00
Closing balance	1,161,907,077.71	1,059,869,963.55

## (II) Notes to items of the consolidated income statement

## 1. Operating revenue/Operating cost

## (1) Details

Items	Current period cumulative		Preceding period comparative	
	Revenue	Cost	Revenue	Cost
Revenue from main operations	2,983,605,487.25	2,100,343,801.05	2,600,961,883.34	1,858,788,950.82
Revenue from other operations	38,544,565.99	15,128,893.61	32,344,825.90	12,289,633.70
Total	3,022,150,053.24	2,115,472,694.66	2,633,306,709.24	1,871,078,584.52

## (2) Breakdown of revenue by main categories

Reportable segments	Domestic	Overseas	Subtotal
Main operating regions			
Domestic	2,226,924,544.35		2,226,924,544.35
Overseas		795,225,508.89	795,225,508.89
Subtotal	2,226,924,544.35	795,225,508.89	3,022,150,053.24
Main product types			
Compressor series products	1,727,381,393.15	596,898,086.02	2,324,279,479.17
Geothermal power generation		195,688,964.71	195,688,964.71
Others	499,543,151.20	2,638,458.16	502,181,609.36
Subtotal	2,226,924,544.35	795,225,508.89	3,022,150,053.24
Revenue recognition time			
Goods (transferred at a point in time)	2,226,924,544.35	795,225,508.89	3,022,150,053.24
Subtotal	2,226,924,544.35	795,225,508.89	3,022,150,053.24

## 2. Taxes and surcharges

Items	Current period cumulative	Preceding period comparative
Urban maintenance and construction tax	3,718,645.78	3,779,505.84
Education surcharge	2,496,157.30	2,318,970.56
Local education surcharge	1,664,105.15	1,367,902.78
Stamp duty	1,203,270.89	905,623.22
Housing property tax	3,246,458.57	3,272,356.57
Land use tax	3,390,105.78	1,947,055.52
Environmental protection tax, etc.	106,044.67	644,587.77
Total	15,824,788.14	14,237,207.21

### 3. Selling expenses

Items	Current period cumulative	Preceding period comparative
Employee benefits	58,859,254.01	64,486,459.77
Business travelling expenses	6,774,331.49	9,450,077.69
Freight and miscellaneous expenses [Note]		33,682,056.51
Maintenance service fees	11,518,342.69	12,076,012.82
Others	26,817,128.77	19,825,458.05
Total	103,969,056.96	139,318,064.84

Note: Due to the change of accounting policies, the Company has included the freight and miscellaneous expenses of 33,682,056.51 yuan in the operating costs account in 2020.

### 4. Administrative expenses

Items	Current period cumulative	Preceding period comparative
Employee benefits	132,958,118.50	155,096,963.70
Amortization and depreciation of assets	19,834,068.90	22,048,604.32
Office expenses	15,389,856.84	15,513,811.35
Business travelling expenses	12,017,770.18	16,515,914.80
Consultation fees	25,037,439.98	18,229,742.66
Others	49,399,101.45	40,821,216.39
Total	254,636,355.85	268,226,253.22

### 5. R&D expenses

Items	Current period cumulative	Preceding period comparative
Employee benefits	43,902,336.38	40,069,931.71
Direct materials	39,067,593.78	20,946,296.69
Equipment testing expenses	4,918,626.99	5,716,868.02
Amortization and depreciation expenses	11,063,008.71	12,849,755.98
Power expenses	3,253,236.60	3,695,877.29
Others	3,270,654.25	3,682,386.90
Total	106,375,456.71	86,961,116.59

### 6. Financial expenses

Items	Current period cumulative	Preceding period comparative
Interest expenses	80,850,412.98	44,099,429.65
Less: Interest income	6,775,576.84	14,858,019.04
Gains/Losses on foreign	38,651,238.37	7,251,397.48

Items	Current period cumulative	Preceding period comparative
exchange		
Others	6,471,500.68	4,808,512.63
Total	119,197,575.19	41,301,326.69

#### 7. Other income

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Government grants related to assets [Note]	3,468,861.54	3,430,400.00	3,468,861.54
Government grants related to income [Note]	25,716,348.90	15,861,481.87	25,716,348.90
Total	29,185,210.44	19,291,881.87	29,185,210.44

Note: Please refer to section V (IV) 3 of the notes to financial statements for details on government grants included into other income.

#### 8. Investment income

Items	Current period cumulative	Preceding period comparative	Amount included in current non-recurring gains and losses
Investment income from long-term equity investments under equity method	10,716,076.47	7,291,424.72	
Investment income from disposal of long-term equity investments	-742,516.25		-742,516.25
Total	10,173,562.24	7,291,424.72	-742,516.25

#### 9. Credit impairment loss

Items	Current period cumulative	Preceding period comparative
Bad debts	-15,952,545.78	-8,814,396.68
Total	-15,952,545.78	-8,814,396.68

#### 10. Assets impairment loss

Items	Current period cumulative	Preceding period comparative
Inventory write-down loss	-21,160,693.71	-25,157,860.18
Impairment loss of goodwill	-9,496,845.75	-17,966,734.14
Total	-30,657,539.46	-43,124,594.32

11. Gains on asset disposal

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Gains on disposal of non-current assets	-306,623.83	330,375.10	-306,623.83
Total	-306,623.83	330,375.10	-306,623.83

12. Non-operating revenue

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Gains on damage or retirement of non-current assets	4,148.69		4,148.69
Others	1,966,271.76	205,267.97	1,966,271.76
Total	1,970,420.45	205,267.97	1,970,420.45

13. Non-operating expenditures

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Losses on damage or retirement of non-current assets	274,592.99	650,496.00	274,592.99
Others	300,162.56	475,975.01	300,162.56
Total	574,755.55	1,126,471.01	574,755.55

14. Income tax

(1) Details

Items	Current period cumulative	Preceding period comparative
Current period income tax expenses	55,011,835.13	38,743,524.79
Deferred income tax expenses	-17,763,695.79	-5,466,607.76
Total	37,248,139.34	33,276,917.03

(2) Reconciliation of accounting profit to income tax expenses

Items	Current period cumulative	Preceding period comparative
Profit before tax	300,511,854.24	186,237,649.82
Income tax expenses based on tax rate applicable to the parent company	75,127,963.56	46,559,412.46
Effect of different tax rate applicable to subsidiaries	-37,877,922.53	-9,911,863.90
Effect of prior income tax reconciliation	-675,906.60	-1,324,095.01
Effect of non-taxable income	-2,729,019.62	-1,822,856.18
Effect of non-deductible losses	253,656.16	261,552.56

Items	Current period cumulative	Preceding period comparative
Effect of utilization of deductible losses not previously recognized as deferred tax assets	-3,322,259.24	-52,731.96
Effect of deductible temporary differences or deductible losses not recognized as deferred tax assets in the current period	25,980,183.78	14,967,649.57
Effect of cost plus deduction of technical development expenses and wages of the people with disabilities	-19,488,550.47	-15,339,930.31
Income tax expenses	37,248,139.34	33,276,917.03

#### 15. Other comprehensive income, net of income tax

Please refer to section V (I) 31 of notes to financial statements for details.

### (III) Notes to items of the consolidated cash flow statement

#### 1. Other cash receipts related to operating activities

Items	Current period cumulative	Preceding period comparative
Recovery of operating security deposits	121,372,065.42	271,554,114.36
Government grants	26,216,348.90	15,861,481.87
Operating interest income	6,775,576.84	14,858,019.04
Others	1,966,271.76	205,267.97
Total	156,330,262.92	302,478,883.24

#### 2. Other cash payments related to operating activities

Items	Current period cumulative	Preceding period comparative
Payment of operating security deposits	227,784,988.19	168,207,916.99
Payment of operating expenses	1,660,979,723.24	1,917,788,104.04
Payment of deposit to the power sector	2,822,643.54	
Others	3,703,016.50	7,536,055.21
Total	407,304,576.47	367,222,812.69

#### 3. Other cash payments related to financing activities

Items	Current period cumulative	Preceding period comparative
Pledge of time deposits	173,200,000.00	
Payment of non-public offering fees	1,267,710.49	
Purchase of non-controlling interest		6,405,825.89
Payments for business combination under common control		2,980,000.00

Items	Current period cumulative	Preceding period comparative
Total	174,467,710.49	9,385,825.89

#### 4. Supplement information to the cash flow statement

##### (1) Supplement information to the cash flow statement

Supplement information	Current period cumulative	Preceding period comparative
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	263,263,714.90	152,960,732.79
Adjustments:		
Provision for assets impairment loss	46,610,085.24	51,938,991.00
Depreciation of fixed assets, oil and gas assets, productive biological assets	166,444,590.03	134,653,834.21
Amortization of intangible assets	9,019,854.72	5,376,335.63
Amortization of long-term prepayments		
Losses on disposal of fixed assets, intangible assets and other long-term assets (Less: gains)	306,623.83	-330,375.10
Fixed assets retirement loss (Less: gains)	270,444.30	650,496.00
Losses on changes in fair value (Less: gains)		
Financial expenses (Less: gains)	100,257,412.42	51,350,827.10
Investment losses (Less: gains)	-10,173,562.24	-7,291,424.72
Decrease of deferred tax assets (Less: increase)	-20,870,597.63	-11,370,969.93
Increase of deferred tax liabilities (Less: decrease)	3,106,901.84	5,904,362.17
Decrease of inventories (Less: increase)	-591,978,640.45	-281,259,340.98
Decrease of operating receivables (Less: increase)	-273,416,297.24	122,866,754.16
Increase of operating payables (Less: decrease)	568,805,566.80	-190,242,255.19
Others		
Net cash flows from operating activities	261,646,096.52	29,025,965.84
(2) Significant investing and financing activities not related to cash receipts and payments:		
Conversion of debt into capital		
Convertible bonds due within one year		
Fixed assets leased in under finance leases		
(3) Net changes in cash and cash equivalents:		
Cash at the end of the period	1,440,619,016.31	438,835,723.39
Less: Cash at the beginning of the period	438,835,723.39	739,081,474.57
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase of cash and cash equivalents	1,001,783,292.92	-300,245,751.18



Items	Closing balance in foreign currencies	Exchange rate	RMB equivalent at the end of the period
TWD	21,624,285.00	0.2321	5,018,996.55
INR	8,430,507.10	0.0891	751,158.18
PLN	202,439.20	1.7520	354,673.48
Accounts receivable			781,074,396.66
Including: USD	97,646,898.48	6.5249	637,136,247.88
EUR	16,321,021.30	8.0250	130,976,195.93
AUD	1,558,649.87	5.0163	7,818,655.34
TWD	18,800,910.00	0.2321	4,363,691.21
INR	8,749,700.12	0.0891	779,605.30
Short-term borrowings			356,912,030.00
Including: USD	54,700,000.00	6.5249	356,912,030.00
Accounts payable			505,948,431.81
Including: USD	65,933,967.02	6.5249	430,212,541.42
EUR	7,812,249.16	8.0250	62,693,299.51
AUD	271,519.60	5.0163	1,362,023.77
TWD	14,903,169.00	0.2321	3,459,025.52
INR	20,426,401.80	0.0891	1,819,992.40
PLN	3,653,852.28	1.7520	6,401,549.19
Non-current liabilities due within one year			90,323,700.00
Including: USD	13,000,000.00	6.5249	84,823,700.00
HUF	250,000,000.00	0.0220	5,500,000.00
Long-term borrowings			492,449,808.54
Including: USD	16,886,939.00	6.5249	166,528,258.00
TWD	16,886,939.00	0.2321	3,912,288.54
HUF	1,000,000,000.00	0.0220	22,000,000.00

(2) Remarks on foreign operations

Company name	Holding proportion (%)	Place of registration	Acquisition date	Functional currency	Business scope	Acquisition method
Kaishan Hong Kong Company	100.00	Hong Kong	September 2009	USD	Products sales and investment management	Establishment
North America Development Center	100.00	USA	December 2009	USD	Products R&D	Establishment
Asia Pacific Hong Kong Company	100.00	Hong Kong	July 2012	USD	Products sales	Establishment
Taiwan Kaishan Company	100.00	Taiwan	July 2012	TWD	Products sales	Establishment
Kaishan Australia	100.00	Australia	February 2013	AUD	Production and sale	Business

Company name	Holding proportion (%)	Place of registration	Acquisition date	Functional currency	Business scope	Acquisition method
					of compressor products	combination not under common control
Australia Management Company	100.00	Australia	May 2013	AUD	Investment management	Establishment
America Technologies Company	100.00	USA	February 2015	USD	Products sales	Establishment
Kaishan Recycling Company	100.00	China	November 2015	USD	Technology, equipment consisting on geothermal projects	Establishment
KS ORKA Company	90.00	Singapore	November 2015	USD	Investment, development and operation of recyclable energy	Establishment
OME Company	100.00	USA	June 2016	USD	Investment, development and operation of recyclable energy	Establishment
LMF Company	95.50	Austria	July 2016	EUR	Production and sale of compressor products	Business combination not under common control
OTP Company [Note 1]	90.00	Singapore	August 2016	USD	Geothermal development	Business combination not under common control
Turawell Geothermal Company [Note 2]	81.18	Hungary	September 2016	USD	Geothermal development	Business combination not under common control
SGI Company [Note 3]	85.50	Indonesia	January 2017	USD	Geothermal development	Business combination not under common control
KCA Company	100.00	USA	March 2018	USD	Production and sale of compressor products	Establishment
Kaishan India Company	100.00	India	August 2019	INR	Sale and after-sale service of compressor and other machinery	Establishment
Kaishan Europe	100.00	Poland	November 2019	PLN	Sale and after-sale service of compressor and other machinery	Establishment
Eurasia Company	100.00	Turkey	August 2019	TRY	Geothermal development	Establishment

Note 1: OTP Company is a wholly-owned subsidiary of KS ORKA Company, and the Company holds 90% equity of KS ORKA Company, therefore, the Company holds 90% equity of OTP Company.

Note 2: Turawell Geothermal Company is a subsidiary of KS ORKA Company. The Company holds 90% equity of KS ORKA Company, and KS ORKA Company holds 91.8% equity of Turawell Geothermal Company, therefore, the Company holds 81.18% equity of Turawell Geothermal Company.

Note 3: SGI Company is a subsidiary of KS ORKA Company. The Company holds 95% equity of KS ORKA Company, and KS ORKA Company holds 95% equity of SGI Company, therefore, the Company holds 85.50% equity of SGI Company.

### 3. Government grants

#### (1) Details

##### 1) Government grants related to assets

##### Gross method

Items	Opening balance of deferred income	Increase	Amortization	Closing balance of deferred income	Amounts presented under	Remarks
Project with annual production of 50 KSG series large-scale processing gas screw compressors	2,452,890.00					Pursuant to the document Cai Jian [2013] 331
Project with annual production of 2000 sets of high-efficiency and energy-saving screw vacuum pumps and 5000 sets of high-efficiency and energy-saving screw blowers	6,237,900.00		860,400.00	5,377,500.00	Other income	Pursuant to the document numbered Hu Lin Di Guan Wei Ji [2014] 133
Project with annual production of 500000 KW/1000 sets of screw expander generator unit	13,650,000.00	500,000.00	1,988,461.54	12,161,538.46	Other income	Pursuant to the document numbered Zhe Fa Gai Tou Zi [2015] 397
Subtotal	22,340,790.00	500,000.00	3,468,861.54	19,371,928.46		

##### 2) Government grants related to income and used to compensate future relevant costs, expenses or losses

Items	Opening balance of deferred income	Increase	Amounts carried forward	Closing balance of deferred income	Amounts carried forward presented under	Remarks
The breakthrough project of the world's first 4.3MW, 5.4MW and 6.5MW geothermal steam screw generator unit	7,965,000.00			7,965,000.00		Pursuant to the document numbered Lin Di Guan Wei Ji [2018] 104
Subtotal	7,965,000.00			7,965,000.00		

3) Government grants related to income are used to compensate incurred value costs, expenses or losses

Items	Amount	Presented under	Remarks
Special Account for Supporting Fees of Shanghai Free Trade Zone	6,985,800.00	Other income	Pursuant to the document numbered Pu Ke Jing Wei [2019] 122
Special Fund for Economic Development of Shanghai Free Trade Zone	3,400,000.00	Other income	Pursuant to the document numbered Pu Ke Jing Wei [2019] 122
Refund of social insurance expenses	3,386,415.56	Other income	
Subsidy for worker training	1,585,500.00	Other income	Pursuant to the document numbered Zhe Ren She Fa [2020] 36
Others	10,355,533.34	Other income	
Subtotal	25,716,348.90		

(2) In the current period, government grants included into profit or loss totaled 29,185,210.44 yuan.

## VI. Changes in the consolidation scope

Changes in the consolidation scope due to other reasons

### 1. Entities brought into the consolidation scope

Entities	Equity acquisition method	Equity acquisition date	Capital contribution	Capital contribution proportion (%)
Shanghai Drilling Company	Establishment	October 19, 2020	600,000	100.00
Shenzhen Kaitec	Establishment	October 13, 2020	Not paid yet	100.00
Chengdu Drilling Company	Establishment	March 30, 2020	1,573,600	100.00
阿拉玛发压缩机（中国）有限公司 (LMF Compressor (China) Co., Ltd.)* [Note 1]	Establishment	November 27, 2020	Not paid yet	95.50
浙江开山新能源科技有限公司 (Zhejiang Kaishan New Energy Technology Co., Ltd.)* [Note 2]	Establishment	May 6, 2020	Not paid yet	51.00
Kaishan Turkey [Note 3]	Establishment	September 2, 2020	TRY 540,000	100.00
LMF NORDIC AS [Note 4]	Establishment	April 5, 2020	Not paid yet	95.50

Note 1: It is a subsidiary of LMF Company, which is hereinafter referred to as "LMF Compressor (China) Company".

Note 2: It is hereinafter referred to as "Kaishan New Energy Technology Company".

Note 3: It is a subsidiary of Eurasia Company.

\* The English names are for identification purpose only.

Note 4. It is a subsidiary of LMF Company.

## 2. Entities excluded from the consolidation scope

Entities	Equity disposal method	Disposal date	Disposal-date net assets	Net profit from the period beginning to the disposal date
Chengdu Drilling Company	Liquidation	December 17, 2020	10,526.33	-1,563,073.67

## VII. Interest in other entities

### (I) Interest in significant subsidiaries

#### 1. Information of significant subsidiaries

Subsidiaries	Main operating place	Place of registration	Business nature	Holding proportion (%)		Acquisition method
				Direct	Indirect	
Kaishan Kevin Screw Company	Quzhou	Quzhou	Manufacturing	100.00		Business combination under common control
Kaishan Foundry Company	Quzhou	Quzhou	Manufacturing		100.00	Business combination under common control
Kaishan Pressure Vessel Company	Quzhou	Quzhou	Manufacturing	100.00		Business combination under common control
Power Tech Screw Company	Shanghai	Shanghai	Manufacturing	100.00		Business combination under common control
Guangdong Ganey Company	Guangdong Province	Guangdong Province	Manufacturing	98.25		Business combination not under common control
Kaishan Refrigeration Company	Shanghai	Shanghai	Manufacturing	100.00		Establishment
Shanghai Energy Company	Shanghai	Shanghai	Manufacturing	100.00		Establishment
Zhejiang Energy Company	Quzhou	Quzhou	Manufacturing	100.00		Establishment
Chongqing Fluid Machinery Company	Chongqing	Chongqing	Manufacturing	100.00		Establishment
Kaishan Hong Kong Company	Hong Kong	Hong Kong	Trade	100.00		Establishment
KS ORKA Company	Singapore	Singapore	Manufacturing		90.00	Establishment
Kaishan Recycling Company	Singapore	Singapore	Manufacturing	100.00		Establishment
LMF Company	Austria	Austria	Manufacturing		75.00	Business combination not under common control
OME Company	USA	USA	Manufacturing		100.00	Establishment
KCA Company	USA	USA	Manufacturing	100.00		Establishment

## 2. Significant not wholly-owned subsidiaries

Subsidiaries	Holding proportion of non-controlling shareholders	Non-controlling shareholders' profit or loss	Dividend declared to non-controlling shareholders	Closing balance of non-controlling interest
Guangdong Ganey Company	1.75%	20,454.57		2,060,289.46
KS ORKA Company	10.00%	5,568,524.82		-2,767,126.45
LMF Company	4.50%	725,020.32		-12,243,976.13

## 3. Main financial information of significant not wholly-owned subsidiaries

### (1) Assets and liabilities

Subsidiaries	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Guangdong Ganey Company	106,441,975.93	40,676,452.43	147,118,428.36	56,255,929.59		56,255,929.59
KS ORKA Company	392,675,081.55	5,234,504,343.91	5,627,179,425.46	4,381,045,838.14	1,182,255,691.78	5,563,301,529.92
LMF Company	357,684,421.28	67,866,344.02	425,550,765.30	662,314,490.05	35,324,633.59	697,639,123.64

(Continued)

Subsidiaries	Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Guangdong Ganey Company	1,013,351,552.78	1,144,674,498.04	2,158,026,050.82	1,550,058,182.04		1,550,058,182.04
KS ORKA Company	96,740,542.72	4,139,540,935.91	4,236,281,478.63	2,707,460,947.89	1,524,684,400.57	4,232,145,348.46
LMF Company	338,080,709.72	56,339,724.81	394,420,434.53	638,871,708.96	30,863,232.01	669,734,940.97

### (2) Profit or loss and cash flows

Subsidiaries	Current period cumulative			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Guangdong Ganey Company	121,103,678.88	1,947,624.59	1,947,624.59	6,872,686.18
KS ORKA Company	186,215,452.34	55,685,248.22	55,685,248.22	125,347,610.31
LMF Company	338,111,333.49	16,111,562.62	16,111,562.62	37,104,228.39

(Continued)

Subsidiaries	Preceding period comparative			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Guangdong Ganey Company	121,799,182.74	4,828,073.30	4,828,073.30	2,849,951.61
KS ORKA Company	54,336,463.61	-4,322,811.14	-4,322,811.14	303,618,953.32
LMF Company	468,246,751.15	-5,642,636.66	-5,642,636.66	-61,592,562.06

## (II) Interest in joint venture or associates

## 1. Significant joint ventures or associates

Joint ventures or associates	Main operating place	Place of registration	Business nature	Holding proportion (%)		Accounting treatment on investments in joint ventures or associates
				Direct	Indirect	
Kaishan Yinlun Company	Quzhou	Quzhou	Manufacturing	50.00		Equity method
Wolong Kaishan Company	Quzhou	Quzhou	Manufacturing	45.00		Equity method

## 2. Main financial information of significant joint ventures

Items	Closing balance/ Current period cumulative		Opening balance/ Preceding period comparative	
	Kaishan Yinlun Company	Wolong Kaishan Company	Kaishan Yinlun Company	Wolong Kaishan Company
Current assets	122,391,272.50	29,333,519.60	80,399,026.88	47,095,499.51
Non-current assets	35,476,752.25	46,504,483.08	36,316,006.27	49,214,354.56
Total assets	157,868,025.94	85,838,001.77	125,706,233.15	91,309,845.07
Current liabilities	47,276,986.44	1,999,331.64	33,972,855.16	8,055,729.13
Non-current liabilities		4,458,333.40		4,558,333.40
Total liabilities	47,276,986.44	6,457,665.04	33,972,855.16	12,614,062.53
Non-controlling interest				
Equity attributable to owners of parent company	110,591,039.50	79,380,336.73	91,733,377.99	78,695,782.54
Proportionate share in net assets	55,295,519.75	35,721,151.53	45,423,638.06	35,413,102.14
Adjustments	-1,233,633.15		-1,969,780.56	
Goodwill				
Unrealized profit in internal trading	-1,233,633.15		-1,969,780.56	
Others				
Carrying amount of investments in associates	54,061,886.60	35,721,151.53	43,453,857.50	35,413,102.14
Fair value of equity investments in associates with quoted price				
Operating revenue	224,757,027.00	29,904,998.86	160,555,510.50	34,573,816.65
Net profit	18,857,661.51	684,554.19	16,213,004.85	277,510.76
Net profit of discontinued operations				
Other comprehensive income				
Total comprehensive income	18,857,661.51	684,554.19	16,213,004.85	277,510.76
Dividend from associates received in current period				

## 3. Aggregated financial information of insignificant joint ventures and associates

Items	Closing balance/ Current period cumulative	Opening balance/ Preceding period comparative
Associates		
Total carrying amount of investments	537,461.68	1,001,394.22
Proportionate shares in the following items		3,151.15
Net profit		3,151.15
Other comprehensive income		
Total comprehensive income		3,151.15

### VIII. Risks related to financial instruments

In risk management, the Company aims to seek the appropriate balance between the risks and benefits from its use of financial instruments. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adhere to limits on a timely and reliable basis.

The Company has exposure to the following risks from its use of financial instruments, which mainly include: credit risk, liquidity risk, and market risk. The Management has deliberated and approved policies concerning such risks, and details are:

#### (I) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

##### 1. Credit risk management practice

###### (1) Evaluation method of credit risk

At each balance sheet date, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When assessing whether the credit risk has increased significantly since initial recognition, the Company takes into account reasonable and supportable information, which is available without undue cost or effort, including qualitative and quantitative analysis based on historical data, external credit risk rating, and forward-looking information. The Company determines the changes in default risk of financial instruments during the estimated lifetime through comparison of the default risk at the balance sheet date and the initial recognition date, on an individual basis or a collective basis.

The Company considers the credit risk on a financial instrument has increased significantly when one or more of the following qualitative and quantitative standards are met:

1) Quantitative standard mainly relates to the scenario in which, at the balance sheet date, the

probability of default if the remaining income has risen by more than a certain percentage compared with the initial recognition;

2) Qualitative standard mainly relates to significant adverse changes in the debtor's operation or financial position, present or expected changes in technology, market, economic or legal environment that will have significant adverse impact on the debtor's repayment ability;

#### (2) Definition of default and credit-impaired assets

A financial instrument is defined as defaulted when one or more following events have occurred, of which the standard is consistent with that for credit-impairment:

- 1) significant financial difficulty of the debtor;
- 2) a breach of binding clause of contract;
- 3) it is very likely that the debtor will enter bankruptcy or other financial reorganization;
- 4) the creditor of the debtor, for economic reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the creditor would not otherwise consider.

#### 2. Measurement of expected credit losses

The key factors in the measurement of expected credit losses include the probability of default, loss rate of default, and exposure to default risk. The Company develops a model of the probability of default, loss rate of default, and exposure to default risk on the basis of quantitative analysis of historical data (e.g. counterparty rating, guarantee measures and collateral type, payment method, etc.) and forward-looking information.

3. Please refer to section V (I) 2, 3 and 5 of the notes to the financial statements for details on the reconciliation table of opening balance and closing balance of provision for losses of financial instrument.

#### 4. Exposure to credit risk and concentration of credit risk

The Company's credit risk is primarily attributable to cash and bank balances and receivables. In order to control such risks, the Company has taken the following measures:

##### (1) Cash and bank balances

The Company deposits its bank balances and other cash and bank balances in financial institutions with relatively high credit levels, hence, its credit risk is relatively low.

##### (2) Receivables

The Company performs credit assessment on customers using credit settlement on a continuous basis. The Company selects credible and well-reputed customers based on credit assessment result, and conducts ongoing monitoring on balance of receivables, to avoid significant risks in bad debts.

As the Company's credit risks fall into several business partners and customers, as of December 31, 2020, 10.29% (December 31, 2019: 11.99%) of the total accounts receivable was due from the five largest customers of the Company. The Company has no significant central credit risk.

The maximum amount of exposure to credit risk of the Company is the carrying amount of each financial asset at the balance sheet.

(II) Liquidity risk

Liquidity risk is the risk that the Company may encounter deficiency of funds in meeting obligations associated with cash or other financial assets settlement, which is possibly attributable to failure in selling financial assets at fair value on a timely basis, or failure in collecting liabilities from counterparties of contracts, or early redemption of debts, or failure in achieving estimated cash flows.

In order to control such risk, the Company comprehensively utilized financing tools such as notes settlement, bank borrowings, etc. and adopts long-term and short-term financing methods to optimize financing structures, and finally maintains a balance between financing sustainability and flexibility. The Company has obtained credit limit from several commercial banks to meet working capital requirements and expenditures.

Financial liabilities classification on remaining time period maturity

Items	Closing balance				
	Carrying amount	Contract amount not yet discounted	Within 1 year	1-3 years	Over 3 years
Bank borrowings	3,754,906,909.15	3,898,621,266.30	2,022,907,036.68	1,064,705,830.26	811,008,399.36
Notes payable	813,578,272.88	813,578,272.88	813,578,272.88		
Accounts payable	1,081,278,374.48	1,081,087,278.48	1,087,278.48		
Other payables	37,069,165.11	37,069,165.11	37,069,165.11		
Subtotal	5,686,832,721.62	5,830,357,072.77	3,951,834,832.83	1,064,705,830.26	811,008,399.36

(Continued)

Items	December 31, 2019				
	Carrying amount	Contract amount not yet discounted	Within 1 year	1-3 years	Over 3 years
Bank borrowings	2,892,771,544.94	2,977,486,276.93	1,062,924,460.11	817,029,692.05	1,097,532,124.77
Notes payable	503,903,028.80	503,903,028.80	503,903,028.80		
Accounts payable	715,610,790.93	715,610,790.93	715,610,790.93		
Other payables	39,519,217.86	39,519,217.86	39,519,217.86		
Subtotal	4,151,804,582.53	4,236,519,314.52	2,321,957,497.70	817,029,692.05	1,097,532,124.77

(III) Market risk

Market risk is the risk that the Company may encounter fluctuation in fair value or future cash flows of financial instruments due to changes in market price. Market risk mainly includes interest

risk and foreign currency risk.

#### 1. Interest risk

Interest risk is the risk that an enterprise may encounter fluctuation in fair value or future cash flows of financial instruments due to changes in market interest. The Company's fair value interest risks arise from fixed-rate financial instruments, while the cash flow interest risks arise from floating-rate financial instruments. The Company determines the proportion of fixed-rate financial instruments and floating-rate financial instruments based on the market environment, and maintains a proper financial instruments portfolio through regular review and monitoring. The Company's interest risk in cash flows relates mainly to bank borrowings with floating interest rate.

As of December 31, 2020, balance of borrowings with interest accrued at floating interest rate totaled 2,483.82 million yuan (December 31, 2019: 2,124.794 million yuan). If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's gross profit and equity will not be significantly affected.

#### 2. Foreign currency risk

Foreign currency risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Company's foreign currency risk relates mainly to foreign currency monetary assets and liabilities. Enterprises located in mainland China mainly adopt RMB for purchasing, selling and financing activities, and their main business activities are priced and settled in RMB; subsidiaries located outside mainland China mainly adopt USD, EUR and other local currencies for purchasing, selling and financing activities, so as to reduce foreign exchange risk. When short-term imbalance occurred to foreign currency assets and liabilities, the Company may adjust foreign currency at market exchange rate when necessary, in order to maintain the net risk exposure within an acceptable level.

Please refer to section V (IV) 2 of notes to financial statements for details in foreign currency financial assets and liabilities at the end of the period.

### IX. Related party relationships and transactions

#### (I) Related party relationships

##### 1. Parent company

##### (1) Details

Parent company	Place of registration	Business nature	Registered capital	Holding proportion over the Company (%)	Voting right proportion over the Company (%)
Kaishan Group 凯石	Quzhou	Industrial investment	113.40 million	63.49	63.49

(2) The Company's ultimate controlling party is 曹克坚 (Cao Kejian), who holds 82.34% equity of the parent company. The parent company holds 630,897,216 shares of the Company, besides, Cao Kejian directly holds 49,800,000 shares of the Company, thus Cao Kejian holds 680,697,216

shares of the Company both directly and indirectly, accounting for 68.51% of the Company's registered capital.

2. Please refer to section VII (I) of notes to financial statements for details on the Company's subsidiaries.

### 3. Joint ventures and associates of the Company

Please refer to section VII (II) of notes to financial statements for details on the Company's significant joint ventures and associates. Details of other joint ventures or associates carrying out related party transactions with the Company in current period or in preceding period but with balance in current period are as follows:

Joint ventures or associates	Relationships with the Company
Kaishan Yinlun Company	Associate
Wolong Kaishan Company	Associate

### 4. Other related parties of the Company

Related parties	Relationships with the Company
浙江开山重工股份有限公司 (Zhejiang Kaishan Heavy Industry Co., Ltd.)*	Under common control of the parent company
浙江开山缸套有限公司 (Zhejiang Kaishan Cylinder Co., Ltd.)*	Under common control of the parent company
浙江同荣节能科技服务有限公司 (Zhejiang Tongrong Energy-saving Technology Service Co., Ltd.)*	Under common control of the parent company
浙江开山钎具有限公司 (Zhejiang Kaishan Drill Co., Ltd.)*	Under common control of the parent company
浙江开山联合节能科技服务有限公司 (Zhejiang Kaishan Joint Energy-saving Technology Service Co., Ltd.)* [Note]	Under common control of the parent company
阿拉玛发(上海)压缩技术有限公司 (LMF (Shanghai) Compression Technology Co., Ltd.)*	Under common control of the parent company

Note: Hereinafter referred to as "Kaishan Joint Energy-saving Company".

## (II) Related party transactions

### 1. Purchase and sale of goods, rendering and receiving of services

#### (1) Purchase of goods and receiving of services

Related parties	Content of transaction	Current period cumulative	Preceding period comparative
Kaishan Yinlun Company	Goods	200,160,717.49	130,050,297.54
Wolong Kaishan Company	Goods	27,813,108.63	31,096,284.18
Zhejiang Kaishan Cylinder Co., Ltd.	Goods	4,259,992.56	22,029,339.23
Zhejiang Kaishan Heavy Industry Co., Ltd.	Goods	4,859,168.35	2,929,172.86
Kaishan Group	Goods	477,513.24	466,792.89
Zhejiang Kaishan Drill Co., Ltd.	Goods	443,306.55	15,541.32

\* The English names are for identification purpose only.

Related parties	Content of transaction	Current period cumulative	Preceding period comparative
Kaishan Joint Energy-saving Company	Goods	259,651.03	
Zhejiang Tongrong Energy-saving Technology Service Co., Ltd.	Goods		86,206.90
Subtotal		238,273,457.89	186,673,634.92

(2) Sale of goods and rendering of services

Related parties	Content of transaction	Current period cumulative	Preceding period comparative
Kaishan Joint Energy-saving Company	Goods	14,207,238.36	14,535,148.98
Zhejiang Kaishan Heavy Industry Co., Ltd.	Goods	11,048,850.18	13,619,991.95
Zhejiang Tongrong Energy-saving Technology Service Co., Ltd.	Goods	3,150,755.02	1,271,630.67
Zhejiang Kaishan Cylinder Co., Ltd.	Goods	2,308,034.64	5,442,824.40
Kaishan Yinlun Company	Goods	601,519.57	1,040,382.63
LMF (Shanghai) Compression Technology Co., Ltd.	Goods	141,782.30	2,669,208.85
Zhejiang Kaishan Drill Co., Ltd.	Goods	11,232,823.23	27,651,891.88
Wolong Kaishan Company	Goods	44,110.54	738.58
Kaishan Group			
Subtotal		31,644,763.41	38,900,469.08

2. Related party leases

The Company as the lessor

Lessees	Types of assets leased	Lease income for current period	Lease income for the preceding period
Zhejiang Kaishan Drill Co., Ltd.	House	350,273.14	

3. Related party guarantees

The Company and its subsidiaries as guaranteed parties

Guarantors	Amount guaranteed	Commencement date	Maturity date	Whether the guarantee is mature
Kaishan Group	USD 14,000,000.00	3/6/2020	3/5/2021	No
	50,000,000.00	7/24/2020	7/23/2023	No
	100,000,000.00	7/30/2020	7/23/2021	No
	50,000,000.00	9/29/2020	3/26/2021	No
	10,000,000.00	10/14/2020	10/13/2021	No
	50,000,000.00	10/29/2020	4/26/2021	No
	10,000,000.00	11/27/2020	11/26/2020	No
	188,000,000.00	12/19/2019	12/18/2022	No

Guarantors	Amount guaranteed	Commencement date	Maturity date	whether the guarantee is mature
	USD 84,500,000.00 [Note]	7/3/2017	4/18/2027	No
	811,000,000.00 [Note]			No

Note: Kaishan Group pledges the Company's shares it holds to provide guarantee for the Company's borrowings. As of the date of approval for issuing the financial statements, Kaishan Group holds 630,897,216 shares of the Company, accounting for 63.49% of the Company's total shares; shares pledged total 268,850,000 shares, accounting for 42.61% of the Company's total shares and 27.06% of the Company's share capital.

#### 4. Key management's emoluments

Items	Current period cumulative	Preceding period comparative
Key management's emoluments	3.90 million	4.86 million

#### 5. Other related party transactions

(1) Based on the electricity price charged by power companies and electricity price of the company, in the current period, the Company charged electricity fee of 9,129,917.27 yuan from Zhejiang Kaishan Heavy Industry Co., Ltd., Kaishan Yinlun Company and Zhejiang Drill Co., Ltd., and paid electricity fee of 720,676.72 yuan to Wolong Kaishan Company. The subsidiary Kaishan Foundry Company paid electricity fee of 19,802,613.28 yuan to Zhejiang Kaishan Cylinder Co., Ltd.

(2) In the current period, the Company accrued the expenses to be paid to Kaishan Group based on the geothermal project expenses actually paid by Kaishan Group, totaling 4,951,000.78 yuan.

#### (III) Balance due to or from related parties

##### 1. Balance due from related parties

Items	Related parties	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable	Zhejiang Tongrong Energy-saving Technology Service Co., Ltd.	7,345,872.50	367,293.63	8,541,613.42	726,699.00
	LMF (Shanghai) Compression Technology Co., Ltd.	5,056,907.18	587,820.09	5,256,907.18	375,996.13
	Kaishan Joint Energy-saving Company	1,730,024.36	86,501.22	2,160,274.00	108,013.70
	Zhejiang Kaishan Heavy Industry Co., Ltd.	1,031,429.78	51,571.49	1,650,262.05	86,791.92
	Zhejiang Kaishan Drill Co., Ltd.	622,993.38	31,149.67	3,097,023.42	154,851.17

Items	Related parties	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Subtotal		15,787,227.20	1,124,336.10	20,706,080.07	1,452,351.92

## 2. Balance due to related parties

Items	Related parties	Closing balance	Opening balance
Accounts payable	Kaishan Yinlun Company	62,461,451.46	33,576,847.11
	Zhejiang Kaishan Cylinder Co., Ltd.	8,471,318.67	9,726,242.60
	Wolong Kaishan Company	7,854,480.90	2,761,353.80
	Kaishan Group		856,260.70
Subtotal		79,637,251.93	46,860,604.21
Other payables	Kaishan Group	5,073,971.60	3,738,677.83
Subtotal		5,073,971.60	3,738,677.83

## X. Commitments and contingencies

(I) As of the balance sheet date, the Company has no significant commitments to be disclosed.

(II) As of the balance sheet date, the Company has no significant contingencies to be disclosed.

## XI. Events after the balance sheet date

(I) Profit distribution plan of 2020

Pursuant to the “Proposal on Profit Distribution Plan of 2020” deliberated and approved by the 22<sup>nd</sup> meeting of the fourth session of the Board of Directors dated April 14, 2021, based on the total share of 993,635,018 shares, the Company intends to distribute cash dividend of 0.3 yuan (including tax) per 10 shares to all shareholders, totaling 29,809,050.54 yuan. The above profit distribution plan is to be deliberated and approved by the Company’s shareholders’ meeting.

(II) Safety accidents in SMGP Company

On January 25, 2021, the Company received a report from the holding subsidiary SMGP Company, which stated that when the on-site team opened the geothermal well numbered T02 and intended to connect steam to the pipeline for commissioning and power generation, the hydrogen sulfide gas emitted caused heavy casualties to nearby villagers. After the accident and before the cause of the accident was found out, in order to ensure safety, the operation of the T02 geothermal well was suspended. The accident caused the drilling, civil engineering, installation and commissioning of power generation equipment, etc. were suspended at the SMGP project site.

On February 5, 2021, SMGP reached a settlement with all the families who suffered casualties due to safety accidents under the participation and witness of local government and community personnel, and signed a compensation agreement. According to the settlement plan, the total

amount to be compensated to the families of the deceased and the injured in this accident does not exceed USD 254,000.

On February 19, 2021, the General Administration of Energy Conservation and Renewable Energy (EBKTE) of Indonesia's Ministry of Energy and Mines approved the first phase of SMGP's power station operation and the resumption of drilling work according to the suggestions of the accident professional investigation team, the local chief executive and SMGP's request.

As of the date of approval for issuing the financial statements, various construction activities on Platform T where SMGP's accident occurred have not yet been approved to resume.

### (III) Acquisition of Fish Lake Geothermal Project

On February 25, 2021, Fish Lake Geothermal LLC, a wholly-owned subsidiary of the Company, signed the Asset Acquisition Agreement with Magma Energy Company and Fish Lake Geothermal Company, and signed the Lease Transfer Agreement with Geo-Energy Partners, LLC and Geo-Energy Partners, LLC, intending to acquire geothermal assets, licenses, permits, right of way, geothermal water rights and other related assets located near Duck, Emeralds County, Nevada, and accept the rights and interests related to the land lease. The acquisition price in the Asset Acquisition Agreement is USD 3,188,888.89, and the transfer price in the Lease Transfer Agreement is USD 1,936,111.11, totaling USD 5.125 million.

After the acquisition of the project is completed, the project company can immediately build a new output power of about 10 MW, and it is estimated that the whole project can build a geothermal power station of 31 MW.

### (IV) Acquisition of Wolong Kaishan Company

Wolong Kaishan Company was established in July 2014, with registered capital of 80 million yuan. It was jointly initiated by the Company, 卧龙电气驱动集团股份有限公司 (Wolong Electric Drive Group Co., Ltd.\*, hereinafter referred to as "Wolong Group") and natural person 钱永春 (Qian Yongchun). As of December 31, 2020, the Company held 55% of its equity. Wolong Kaishan Company is mainly engaged in manufacturing and sales of various types of motors.

Based on the needs of the Company's business development, the Company decided to acquire 55% equity held by Wolong Group and Qian Yongchun. On January 14, 2021 and February 18, 2021, the Company signed relevant equity transfer agreements with Wolong Group and Qian Yongchun respectively. Pursuant to the Appraisal Report numbered Qu Guang Ze Ping Bao Zi [2021] 016 issued by 衢州广泽资产评估事务所 (Quzhou Guangze Assets Appraisal Office

\* The English name is for identification purposes only.

(General Partnership)\*) engaged by the Company, taking January 31, 2021 as the benchmark date, Wolong Kaishan Company's appraised net assets at the benchmark date totaled 84.55 million yuan. Based on the appraised net assets of Wolong Kaishan Company, the transaction prices for equity transaction with Wolong Group 和 齐南永辰un respectively totaled 43.25 million yuan and 4.23 million yuan.

As of the date of approval for issuing the financial statements, this equity transaction has been completed, and the change has been registered at administration for industry and commerce.

#### (V) Acquisition of Kaishan Joint Energy-saving Company

Kaishan Joint Energy-saving Company was established in October 2015, with registered capital of 50 million yuan, which was jointly invested by Kaishan Group and 37 natural persons including 叶德炎 (Ye Deyan), etc. As of December 31, 2020, Kaishan Group held 100% of its equity. Kaishan Joint Energy-saving Company is mainly engaged in energy-saving technical services including contract energy management business.

In order to avoid horizontal competition in the future, the Company decided to acquire 100% equity of Kaishan Joint Energy-saving Company. On April 14, 2021, the Company signed relevant equity transfer agreement with Kaishan Joint Energy-saving Company. Pursuant to the "Proposal on Related Party Transactions and Equity Acquisition between the Company and Controlling Shareholders" deliberated and approved by the Board of Directors dated April 14, 2021, and the Appraisal Report numbered CWAAR [2021] 161 issued by 坤元资产评估有限公司 (Canwin Assets Appraisal Co., Ltd.)\* engaged by the Company, taking December 31, 2020 as the benchmark date, Kaishan Joint Energy-saving Company's appraised net assets at the benchmark date totaled 15,809,025.89 yuan. Both parties agreed on the consideration of this equity transaction at 15,809,025.89 yuan based on the appraised net assets of Kaishan Joint Energy-saving Company. After the transaction is completed, the Company will hold 100% equity of Kaishan Joint Energy-saving Company.

As of the date of approval for issuing the financial statements, the equity acquisition of Kaishan United Energy Saving Company has not yet been completed.

## **XII. Other significant events**

### **(I) Segment information**

#### **1. Identification basis for reportable segments**

The Company identified reportable segments based on geographic information, revenue from main operations and costs of main operations are allocated between segments based on locations where sales are realized, and assets and liabilities are allocated based on locations of operating entities.

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\* The English names are for identification purpose only.

## 2. Financial information

### Geographic information

Items	Domestic	Overseas	Inter-segment offsetting	Total
Revenue from main operations	3,058,923,388.06	792,587,050.73	867,904,951.54	2,983,605,487.25
Cost of main operations	2,288,418,723.14	481,858,864.58	669,933,786.67	2,100,343,801.05
Total assets	5,427,867,387.95	5,849,253,611.89	5,315,276,262.91	10,961,844,736.93
Total liabilities	2,423,038,266.19	6,562,099,041.01	2,762,696,447.52	6,222,440,859.68

### (II) Investments in subsidiaries

#### 1. Newly established subsidiaries

##### (1) Establishment of Shanghai Drilling Company

In October 2020, the Company established the wholly-owned subsidiary Shanghai Drilling Company, with registered capital of 10 million yuan. On October 19, 2020, it completed the registration for industry and commerce at the Administration for Market Regulation of Lin'gang New Area of Shanghai Pilot Free Trade Zone and obtained the business license with unified social credit code of 91310000MA1H3AGF21. As of the date of approval for issuing the financial statements, the Company has paid in 0.60 million yuan.

##### (2) Establishment of Shenzhen Kaitec

In October 2020, the Company established the wholly-owned subsidiary Shenzhen Kaitec with registered capital of 30 million yuan. On October 13, 2020, it completed the registration for industry and commerce at Futian Supervision Bureau of Shenzhen Municipal Administration for Market Regulation and obtained the business license with unified social credit code of 91440300MA5GE5QN4M. As of the date of approval for issuing the financial statements, the Company has not paid in capital.

##### (3) Establishment of Kaishan New Energy Technology Company

In May 2020, the Company and natural persons 刘瑶 (Liu Yao) and 袁宾 (Yuan Bin) established a subsidiary 凯善新能源科技有限公司, with registered capital of 10 million yuan, and the Company held 51% of its equity. On May 6, 2020, it completed the registration for industry and commerce at the Administration for Market Regulation of Fuyang District, Hangzhou and obtained the business license with unified social credit code of 91330183MA2HX6F83E. As of the date of approval for issuing the financial statements, the Company has not paid in capital.

##### (4) Establishment and cancellation of Chengdu Drilling Company

In March 2020, the Company established the wholly-owned subsidiary Chengdu Drilling Company, with registered capital of 5 million yuan. On March 20, 2020, it completed the registration for industry and commerce at the Administration for Market Regulation of Chengdu

High-tech Zone and obtained the business license with unified social credit code of 91510100MA68M3M11Y; the Company liquidated and dissolved Chengdu [REDACTED] to business adjustment, and went through the industrial and commercial cancellation procedures at the Administration for Market Regulation of Chengdu High-tech Zone on December 17, 2020.

#### (5) Establishment of LMF China Company

In October 2020, LMF Company, a subsidiary of the Company, established a subsidiary of LMF China Company, with registered capital of EUR 10 million. On November 27, 2020, it completed the registration for industry and commerce at the Administration for Market Regulation of Lin'gang New Area of Shanghai Pilot Free Trade Zone and obtained the business license with unified social credit code of 91310000MA1H3D41XP. As of the date of approval for issuing the financial statements, the Company has contributed EUR 100,000.

#### (6) Establishment of Kaishan Turkey

In September 2020, Eurasia Company, a subsidiary of the Company, established a subsidiary Kaishan Turkey in Turkey with total investment of TRY 540,000. On September 2, 2020, it completed the registration formalities in Turkey and obtained the registration certificate with the enterprise identification numbered 262525-5. As of the date of approval for issuing the financial statements, the Company has contributed TRY 150,000.

#### (7) Establishment of LMF NORDIC AS

In April 2020, LMF Company, a subsidiary of the Company, set up a subsidiary LMF NORDIC AS in Norway with total investment of NOK 30,000. On April 5, 2020, it completed the registration formalities in Norway and obtained the registration certificate with the enterprise identification number of 924861681. As of the date of approval for issuing the financial statements, the Company has not made any capital contribution.

### 2. Capital increase of subsidiaries

Subsidiaries	Capital increase in current period	RMB equivalent
Kaishan Hong Kong Company	USD 52.61 million, 79.45 million yuan	424.60 million yuan
Kaishan Recycling Company	USD 3.145 million	21.73 million yuan
Kerry Auto-control Company	5.00 million yuan	5.00 million yuan
Kaishan O&M Company	1.00 million yuan	1.00 million yuan
Kaishan Europe	USD 0.54 million	3.75 million yuan

### 3. Acquisition of non-controlling interest of KS ORKA Company

In June 2020, Kaishan Hong Kong Company, a subsidiary of the Company, signed an equity transfer agreement with Huger Orka ehf, and the Company purchased its 60% equity of KS ORKA Company at the consideration of USD 2 million. Kaishan Hong Kong Company has paid USD 1 million for the acquisition on March 18, 2021. As of the date of approval for issuing the financial statements, the remaining equity acquisition payment has not yet been paid.

### XIII. Notes to items of parent company financial statements

#### (I) Notes to items of parent company

##### 1. Accounts receivable

##### (1) Details

##### 1) Details on categories

Categories	Closing balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision	
Receivables with provision made on an individual basis	15,810,002.49	3.10	15,810,002.49	100.00	
Receivables with provision made on a collective basis	494,602,421.19	96.90	62,287,705.62	12.59	432,314,715.57
Total	510,412,423.68	100.00	78,097,708.11	15.30	432,314,715.57

(Continued)

Categories	Opening balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on an individual basis	11,165,693.92	2.18	11,165,693.92	100.00	
Receivables with provision made on a collective basis	501,257,015.64	97.82	55,239,232.71	11.02	446,017,782.93
Total	512,422,709.56	100.00	66,404,926.63	12.96	446,017,782.93

##### 2) Accounts receivable with provision made on an individual basis

Debtors	Book balance	Provision for bad debts	Provision proportion (%)	Reasons for provision made
Receivables with provision made on an individual basis	15,810,002.49	15,810,002.49	100.00	Expected to be irrecoverable
Subtotal	15,810,002.49	15,810,002.49	100.00	

##### 3) Accounts receivable with provision made on a collective basis using age analysis method

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	377,146,653.66	18,857,332.69	5.00
1-2 years	38,267,548.88	3,826,754.89	10.00
2-3 years	31,520,763.14	4,728,114.47	15.00
3-4 years	22,768,567.59	11,384,283.80	50.00
4-5 years	4,692,227.17	3,284,359.02	70.00
Over 5 years	20,206,660.75	20,206,660.75	100.00
Subtotal	494,602,421.19	62,287,705.62	12.59

## (2) Age analysis

Ages	Closing balance
Within 1 year	377,350,680.07
1-2 years	38,587,990.36
2-3 years	33,094,814.99
3-4 years	23,881,975.27
4-5 years	6,852,288.40
Over 5 years	28,873,664.50
Total	510,412,187.68

## (3) Changes in provision for bad debts

Items	Opening balance	Increase			Decrease			Closing balance
		Accrual	Recovery	Others	Reversal	Write-off	Others	
Receivables with provision made on an individual basis	11,165,693.92	4,894,308.57	-250,000.00					15,810,002.49
Receivables with provision made on a collective basis	55,239,232.71	7,048,472.91						62,287,705.62
Subtotal	66,404,926.63	11,942,781.48	-250,000.00					78,097,708.11

## (4) Details of the top 5 debtors with largest balances

Debtors	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
KCA Company	55,566,394.58	10.89	2,783,193.33
Zhejiang Energy Company	51,610,251.69	10.11	2,580,512.58
Eurasia Company	33,311,343.60	6.53	1,665,567.18
Kaitec Company	18,814,436.98	3.69	940,721.85
LEOBERSDORFER MASCHINEN FABRIK GMBH [Note]	16,319,139.82	3.20	815,956.99
Subtotal	175,621,566.67	34.42	8,781,078.33

Note: LEOBERSDORFER MASCHINEN FABRIK GMBH is a wholly-owned subsidiary of LMF Company.

2. Other receivables

(1) Details

1) Details on categories

Categories	Closing balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis	1,472,666,810.66	100.00	85,504,275.23	5.81	1,387,162,535.43
Total	1,472,666,810.66	100.00	85,504,275.23	5.81	1,387,162,535.43

(Continued)

Categories	Opening balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis	359,120,483.69	100.00	17,956,024.18	5.00	341,164,459.51
Total	359,120,483.69	100.00	17,956,024.18	5.00	341,164,459.51

2) Other receivables with provision made on a collective basis

Portfolios	Closing balance			
	Book balance	Provision for bad debts	Provision proportion (%)	
Portfolio grouped with ages				
Including: Within 1 year	1,235,248,116.72	61,762,405.84	5.00	
1-2 years	237,418,693.94	23,741,869.39	10.00	
Subtotal	1,472,666,810.66	85,504,275.23	5.81	

(2) Changes in provision for bad debts

Items	Phase I	Phase II	Phase III	Subtotal
	12-month expected credit losses	Lifetime expected credit losses (credit not impaired)	Lifetime expected credit losses (credit impaired)	
Opening balance	17,956,024.18			17,956,024.18
Opening balance in current period				
--Transferred to phase II	-11,870,934.69	11,870,934.69		
--Transferred to phase III				
--Reversed to phase II				
--Reversed to phase I				
Provision made in current period	55,677,316.35	11,870,934.70		67,548,251.05
Provision recovered in current period				

Items	Phase I	Phase II	Phase III	Subtotal
	12-month expected credit losses	Lifetime expected credit losses (credit not impaired)	Lifetime expected credit losses (credit impaired)	
Provision reversed in current period				
Provision written off in current period				
Other changes				
Closing balance	61,762,405.84	23,741,869.39		85,504,275.23

(3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Subsidiary current loans	1,470,197,681.37	356,256,114.12
Export tax refund receivable		1,883,838.81
Security deposits	900,000.00	900,000.00
Temporary advance payment receivable	1,569,129.29	80,530.76
Total	1,472,666,810.66	359,120,483.69

(4) Details of the top 5 debtors with largest balances

Debtors	Nature of receivables	Book balance	Ages	Proportion to the total balance of other receivables (%)	Provision for bad debts
SMGP Company	Subsidiary call loans	733,275,712.12	Within 1 year/1-2 years	49.79	45,928,253.48
Zhejiang Energy Company	Subsidiary call loans	221,169,500.15	Within 1 year	28.69	15,599,139.07
SIGI Company	Subsidiary call loans	251,041,244.15	Within 1 year/1-2 years	17.05	15,113,529.02
OME Company	Subsidiary call loans	123,130,201.61	Within 1 year	8.36	6,156,510.08
阿拉玛发(无锡)气体设备有限公司(LMF(Wuxi) Gas Equipment Co., Ltd.)* [Note]	Subsidiary call loans	28,587,724.02	Within 1 year	1.94	1,429,386.20
Subtotal		1,470,197,681.37		99.83	85,335,818.76

Note: LMF (Wuxi) Gas Equipment Co., Ltd. is a subsidiary of LMF Company.

\* The English name is for identification purpose only.

### 3. Long-term equity investments

#### (1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investments in subsidiaries	4,278,850,750.24		4,278,850,750.24	3,816,903,089.24		3,816,903,089.24
Investments in associates	89,783,038.13		89,783,038.13	78,866,959.64		78,866,959.64
Total	4,368,633,788.37		4,368,633,788.37	3,895,770,048.88		3,895,770,048.88

#### (2) Investments in subsidiaries

Investees	Opening balance	Increase	Decrease	Provision for impairment made in current period	Closing provision for impairment
Kaishan Kevin Screw Company	371,940,605.60				
Power Tech Screw Company	265,810,014.65				
Power Tech System Company	92,000,000.00				
North America Development Center	27,381,924.70				
Chongqing Fluid Machinery Company					
Kaishan Pressure Vessel Company	42,244,490.76				
Kaishan Hong Kong Company	2,331,817,853.00	424,862,162.00			2,756,680,015.00
Kerry Filtration Company	3,000,000.00				
Kaishan Refrigeration Company	30,000,000.00				
Kerry Auto-control Company	3,000,000.00	5,000,000.00			8,000,000.00
Shanghai Energy Company	30,000,000.00				
Centrifugal Machinery Company	30,000,000.00				
Kaishan Gas Company	10,000,000.00				
Guangdong Ganey Company	110,000,000.00				
Kaishan Cleaning Company	5,000,000.00				
Kaishan Recycling Company	218,384,486.67	21,733,309.00			240,117,795.67
Zhejiang Energy Company	50,000,000.00				
KCA Company	143,273,450.00				
Kaitec Company	2,980,000.00				
Kaishan India Company	70,263.86				
Kaishan O&M Company		1,000,000.00			
Chengdu Drilling Company		1,573,600.00			
Shanghai Drilling Company		600,000.00			
Kaishan Service Company		5,000,000.00			
Kaishan Europe		3,752,190.00			

Investees	Opening balance	Increase	Decrease	Closing balance	Provision for impairment made in current period	Balance of provision for impairment
Subtotal	3,816,903,089.24	4,753,521,261.00	1,573,600.00	4,278,850,750.24		

(3) Investments in associates

Investees	Opening balance	Increase/Decrease			Adjustment in other comprehensive income
		Investments increased	Investments decreased	Investment income recognized under equity method	
Associates					
Kaishan Yinlun Company	43,453,857.50			10,608,029.10	
Wolong Kaishan Company	35,413,102.14			308,049.39	
Subtotal	78,866,959.64			10,916,078.49	

(Continued)

Investees	Increase/Decrease				Closing balance	Closing balance of provision for impairment
	Changes in other equity	Cash dividend/Profit declared for distribution	Provision for impairment	Others		
Associates						
Kaishan Yinlun Company					54,061,886.60	
Wolong Kaishan Company					35,721,151.53	
Subtotal					89,783,038.13	

(II) Notes to items of the parent company income statement

1. Operating revenue/Operating cost

Items	Current period cumulative		Preceding period comparative	
	Revenue	Cost	Revenue	Cost
Main operations	1,756,753,940.15	1,522,311,722.58	1,096,145,263.11	550,656,988.58
Other operations	23,966,379.54	15,788,120.07	5,143,963.41	3,819,422.37
Total	1,780,720,320.36	1,550,884,265.33	1,555,800,951.99	1,377,658,894.10

2. Investment income

Items	Current period cumulative	Preceding period comparative
Investment income from long-term equity investments under cost method	302,400,000.00	227,500,000.00
Investment income from long-term equity investments under equity method	10,916,078.49	7,788,273.57
Gains on disposal of long-term equity investments	-1,563,073.67	

Items	Current period cumulative	Preceding period comparative
Total	311,753,004.82	234,788,273.57

## XVI. Other supplementary information

### (I) Non-recurring profit or loss

Items...	Amount	Remarks
Gains on disposal of non-current assets, including write-off of provision for impairment	-1,319,384.38	
Tax refund, credit or exemption approved beyond the power of authorities, without formal documents, or with occasionality		
Government grants included in profit or loss (excluding those closely related to operating activities of the Company, satisfying government policies and regulations, and continuously enjoyed with certain quantity/quota based on certain standards)	29,185,210.44	Please refer to notes to government grants for details.
Fund possession charge from non-financial entities and included in profit or loss		
Gains on acquisition of subsidiaries, joint ventures and associates due to the surplus of acquisition-date fair value of net identifiable assets in acquiree over the acquisition cost		
Gains on non-cash assets exchange		
Gains on assets consigned to the third party for investment or management		
Assets impairment loss incurred due to force majeure such as natural disasters		
Gains on debt restructuring		
Entity restructuring expenses, such as staffing and integrating expenses		
Gains on transactions with unfair value		
Net profit on subsidiaries acquired through business combination under common control from the beginning of the period to the combination date		
Contingent gains on non-operating activities		
Gains on changes in fair value of financial assets and liabilities at fair value through profit or loss and investment income from disposal of financial assets and liabilities at fair value		
Financial assets, excluding those arising from hedging business related to operating activities		
The reversed provision for impairment of receivables based on impairment test on an individual basis		
Gains on designated loans		
Gains on changes in fair value of investment properties with subsequent measurement at the fair value mode		
Gains on reconciliation of current period profit or loss following legal and regulative requirements on taxation, accounting, etc.		
Management charges for consigned operations		

Items	Amount	Remarks
Other non-operating revenue or expenditures	1,666,109.20	
Other profit or loss satisfying the definition of non-recurring profit or loss		
Subtotal	29,531,735.26	
Less: Enterprise income tax affected	3,184,045.25	
Non-controlling interest affected (after tax)	67,068.95	
Net non-recurring profit or loss attributable to shareholders of the parent company	26,280,621.06	

## (II) RONA and EPS

### 1. Details

Profit of the reporting period	Weighted average RONA (%)	EPS (yuan/share)	
		Basic EPS	Diluted EPS
Net profit attributable to shareholders of ordinary shares	7.04	0.30	0.30
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	6.32	0.27	0.27

### 2. Calculation process of weighted average RONA

Items	Symbol	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	256,000,239.75
Non-recurring profit or loss	B	26,280,621.06
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	C=A-B	229,722,370.87
Opening balance of net assets attributable to shareholders of ordinary shares	D	3,596,639,092.40
Net assets attributable to shareholders of ordinary shares increased due to offering of new shares or conversion of debts into shares	E	1,072,973,409.02
Number of months counting from the next month when the net assets were increased to the end of the reporting period	F	0
Net assets attributable to shareholders of ordinary shares decreased due to share repurchases or cash dividends appropriation	G	
Number of months counting from the next month when the net assets were decreased to the end of the reporting period	H	
Translation reserve	I	-178,851,724.19
Others	J	6
Number of months in the reporting period	K	12
Weighted average net assets	$L = D + A/2 + E \times F/K - G \times H/K \pm I \times$	3,635,214,726.27

Items	Symbols	Current period cumulative
	J/K	
Weighted average RONA	$M=J \div I$	7.04%
Weighted average RONA after deducting non-recurring profit or loss	$N=C/L$	6.32%

### 3. Calculation process of basic EPS and diluted EPS

#### (1) Calculation process of basic EPS

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	256,002,991.93
Non-recurring profit or loss	B	26,280,621.06
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	$C=A-B$	229,722,370.87
Opening balance of total shares	D	858,000,000.00
Number of shares increased due to conversion of reserve to share capital or share dividend appropriation	E	
Number of shares increased due to offering of new shares or conversion of debts into shares	F	135,635,018.00
Number of months counting from the next month when the share was increased to the end of the reporting period	G	0
<del>Number of shares decreased due to share repurchase</del>	<del>H</del>	
Number of months counting from the next month when the share was decreased to the end of the reporting period	I	
Number of shares decreased in the reporting period	J	
Number of months in the reporting period	K	12
Weighted average of outstanding ordinary shares	$L=D+E+F \times G/K-H \times I/K-J$	858,000,000.00
Basic EPS	$M=A/L$	0.30
Basic EPS after deducting non-recurring profit or loss	$N=C/L$	0.27

#### (2) The calculation process of diluted EPS is the same as the calculation process of basic EPS

Zhejiang Kaishan Compressor Co., Ltd.

April 14, 2021

