Lithium Werks China Manufacturing Co., Ltd.

Financial Statements
2022-23

AUDITOR'S REPORT

De Shi Ning Bao (Shen) Zi (23) No. P00112
(Page 1 of 3)

TO THE BOARD OF DIRECTORS OF Lithium Werks (China) Manufacturing CO., Ltd.:

1. Opinion

We have audited the financial statements of Lithium Werks (China) Manufacturing CO., Ltd. (the "Company"), which comprise the balance sheet as at 31 December 2022, the income statement, the statement of changes in owners' equity, and the cash flow statement for the year then ended, and the notes to the financial statements.

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

2. Basis for Opinion

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

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

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

In preparing the financial statements, the management is responsible for assessing 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.

AUDITOR'S REPORT - continued

De Shi Ning Bao (Shen) Zi (23) No. P00112
(Page 2 of 3)

4. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you. 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. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

(4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on 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.

(5) Evaluate the overall presentation (including the disclosures), 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.

AUDITOR'S REPORT - continued

De Shi Ning Bao (Shen) Zi (23) No. P00112
(Page 3 of 3)

4. Auditor's Responsibilities for the Audit of the Financial Statements - continued

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

Deloitte Touche Tohmatsu CPA LLP Nanjing Branch

Nanjing, China

Bei Yang
Chinese Certified Public Accountants

Xiaochun Cheng
Chinese Certified Public Accountants

22 May 2023

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.

LITHIUM WERKS (CHINA) MANUFACTURING CO., LTD.

BALANCE SHEET
AT 31 DECEMBER 2022

ASSETS	NOTE VII	31/12/2022 RMB	31/12/2021 RMB
Current Assets			
Cash and bank balances	1	8,975,057.78	2,373,242.38
Accounts receivable	2	57,649,657.14	88,191,760.44
Prepayments	3	10,772,911.01	5,580,900.53
Other receivables	4	1,537,034.97	240,992.32
Inventories	5	79,960,962.07	35,395,052.00
Other current assets		572,656.08	226,975.75
Total Current Assets		159,468,279.05	132,008,923.42
Non-current Assets			
Fixed assets	6	43,466,250.40	47,186,164.89
Construction in progress	7	6,027,488.76	5,946,837.13
Intangible assets	8	2,630,194.70	1,292,142.30
Long-term deferred expenses	9	539,948.62	1,471,620.60
Other non-current assets	10	3,229,432.60	-
Total Non-current Assets		55,893,315.08	55,896,764.92
TOTAL ASSETS		215,361,594.13	187,905,688.34

LITHIUM WERKS (CHINA) MANUFACTURING CO., LTD.

BALANCE SHEET - continued
AT 31 DECEMBER 2022

LIABILITIES AND OWNERS' EQUITY	NOTE VII	31/12/2022 RMB	31/12/2021 RMB
Current Liabilities			
Short-term borrowings	12	12,500,000.00	13,877,669.80
Accounts payable		31,072,714.63	15,519,310.45
Contract liabilities	13	14,683,337.60	5,004,872.69
Employee benefits payable	14	6,935,292.80	4,430,815.36
Taxes payable	15	237,886.27	203,388.14
Other payables		297,251.90	54,411.53
Other current liabilities	16	3,417,504.63	1,203,380.12
Total Current Liabilities		69,143,987.83	40,293,848.09
TOTAL LIABILITIES		69,143,987.83	40,293,848.09
OWNERS' EQUITY			
Paid-in capital	17	509,446,364.80	509,446,364.80
Accumulated losses	18	(363,228,758.50)	(361,834,524.55)
TOTAL OWNERS' EQUITY		146,217,606.30	147,611,840.25
TOTAL LIABILITIES AND OWNERS' EQUITY		215,361,594.13	187,905,688.34

The accompanying notes form part of the financial statements.

The financial statements on pages 4 to 46 were signed by the following:

Ausen Zhang
General Manager

Frank E
Finance Manager

LITHIUM WERKS (CHINA) MANUFACTURING CO., LTD.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTE VII	Year ended 31/12/2022 RMB	Year ended 31/12/2021 RMB
I. Operating income	19	176,136,283.05	71,164,133.75
Less: Operating costs	20	163,775,616.11	96,985,693.87
Taxes and levies	21	482,460.98	343,732.59
Selling expenses		264,097.00	124,343.13
Administrative expenses	22	15,199,622.10	6,397,542.23
Financial expenses	23	(4,284,408.89)	4,726,703.39
Including: Interest expenses		632,494.70	983,506.11
Interest income		3,050.78	4,754.72
Add: Impairment losses of credit	24	-	(274,569.11)
Impairment losses of assets	25	(1,602,157.71)	(1,193,520.75)
II. Operating loss		(903,261.96)	(38,881,971.32)
Add: Non-operating income		248,256.63	62,520.32
Less: Non-operating expenses		739,228.62	105,094.42
III. Total loss		(1,394,233.95)	(38,924,545.42)
Less: Income tax expenses	26	-	-
IV. Net loss		(1,394,233.95)	(38,924,545.42)
V. Total comprehensive loss		(1,394,233.95)	(38,924,545.42)

The accompanying notes form part of the financial statements.

LITHIUM WERKS (CHINA) MANUFACTURING CO., LTD.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTE VII	2022 RMB	2021 RMB
I. Cash Flows from Operating Activities:			
Cash receipts from the sale of goods and the rendering of services		216,356,851.26	90,151,649.88
Other cash receipts relating to operating activities		4,963,269.50	1,133,624.85
Sub-total of cash inflows from operating activities		221,320,120.76	91,285,274.73
Cash payments for goods purchased and services received		153,502,644.01	54,553,052.10
Cash payments to and on behalf of employees		41,940,723.25	23,560,024.63
Payments of various types of taxes		771,207.45	505,606.06
Other cash payments relating to operating activities		9,028,425.56	716,887.73
Sub-total of cash outflows from operating activities		205,243,000.27	79,335,570.52
Net Cash Flow from Operating Activities	27	16,077,120.49	11,949,704.21
II. Cash Flows from Investing Activities:			
Cash receipts from disposal of fixed assets, intangible assets and other long-term assets		81,191.00	16,300.00
Other cash received in connection with investment activities		-	4,754.72
Sub-total of cash inflows from investing activities		81,191.00	21,054.72
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		7,806,917.25	4,667,979.69
Sub-total of cash outflows from investing activities		7,806,917.25	4,667,979.69
Net Cash Flow used in Investing Activities		(7,725,726.25)	(4,646,924.97)
III. Cash Flows from Financing Activities:			
Cash receipts from borrowings		20,500,000.00	27,477,669.80
Sub-total of cash inflows from financing activities		20,500,000.00	27,477,669.80
Cash repayments of borrowings		21,831,548.40	32,350,000.00
Cash payments for distribution of dividends or profits or settlement of interest expenses		632,494.70	983,506.11
Sub-total of cash outflows from financing activities		22,464,043.10	33,333,506.11
Net Cash Flow used in Financing Activities		(1,964,043.10)	(5,855,836.31)
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		214,464.26	(772,739.89)
V. Net Increase in Cash and Cash Equivalents	28	6,601,815.40	674,203.04
Add: Opening balance of cash and cash equivalents		2,373,242.38	1,699,039.34
VI. Closing Balance of Cash and Cash Equivalents	28	8,975,057.78	2,373,242.38

The accompanying notes form part of the financial statements

LITHIUM WERKS (CHINA) MANUFACTURING CO., LTD.

STATEMENT OF CHANGES IN OWNERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Paid-in capital RMB	Surplus reserve RMB	Accumulated losses RMB	Total owners' equity RMB
I. Balance at 1 January 2022	509,446,364.80	-	(361,834,524.55)	147,611,840.25
II. Changes for the year				
Total comprehensive loss	-	-	(1,394,233.95)	(1,394,233.95)
III. Balance at 31 December 2022	509,446,364.80	-	(363,228,758.50)	146,217,606.30
I. Balance at 1 January 2021	509,446,364.80	-	(322,909,979.13)	186,536,385.67
II. Changes for the year				
Total comprehensive loss	-	-	(38,924,545.42)	(38,924,545.42)
III. Balance at 31 December 2021	509,446,364.80	-	(361,834,524.55)	147,611,840.25

The accompanying notes form part of the financial statements.

I. GENERAL

Lithium Werks (China) Manufacturing CO., Ltd. ("the company") is a limited liability company (wholly foreign legal person) registered in Changzhou City, Jiangsu Province, the People's Republic of China.. The company was established on 24 March 2006, and the operating term is 50 years, unified social credit code 9132041178556645XX. The company's registered capital is $76.5 million.

The company is mainly engaged in the research and develop, design, produce of lithium ion batteries, high-energy lithium ion batteries, lithium ion battery materials, battery energy system equipment; To engage in relevant technology development and technology transfer business; Engaged in related product import and export business and domestic wholesale business. (except those involving special national management measures; For projects subject to approval according to law, business activities can only be carried out after approval by relevant departments).

The Company's holding company is RELIANCE LITHIUM WERKS B.V. established in the Netherlands, and the ultimate holding company is RELIANCE INDUSTRIES LIMITED established in India.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Going concern

The Company assessed its ability to continue as a going concern for the 12 months from 31 December 2022 and did not notice any events or circumstances that may cast significant doubt upon its ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

III. STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Company have been prepared in accordance with the Accounting Standards for Business Enterprises and present truly and completely, the Company's financial positions as at 31 December 2022, and the Company's results of operations and cash flows for the year then ended.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The following significant accounting policies and accounting estimates are determined in accordance with the Accounting Standards for Business Enterprises.

1. Accounting year

The Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

2. Functional currency

Renminbi ("RMB") is the currency of the primary economic environment in which the Company operates. The Company adopts RMB as its functional currency. The Company adopts RMB to prepare the financial statements.

3. Basis of accounting and principle of measurement

The Company has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Company has adopted the historical cost as the principle of measurement of the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

Under the measurement of historical cost, assets are measured on the cash or cash equivalents paid or the fair value of the consideration given at acquisition. Liabilities are measured on the base of actual amount or assets received to undertake the current obligation or the contract amount to undertake the current obligation, or the expected amount of cash and cash equivalent paid for debt formed during business activities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such as basis.

Fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- 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; and
- Level 3 inputs are unobservable inputs for the assets or liability.

4. Cash and cash equivalents

Cash refers to cash on hand and cash in bank that can be readily withdrawn on demand. Cash equivalents are short-term (generally refer to those due within three months upon acquisition), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

5. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Financial instruments - continued

For financial assets purchased or sold in a regular way, the Company recognizes assets acquired and liabilities assumed on a trade date basis, or derecognizes the assets sold on a trade date basis.

Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognized in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognized amounts. Upon initial recognition of accounts receivable that does not contain significant financing component or without considering the financing component included in the contract with a term not exceeding one year under the Accounting Standard for Business Enterprises No. 14 - Revenue ("Revenue Standards"), the Company adopts the transaction price as defined in the Revenue Standards for initial measurement.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant accounting periods. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortized cost of the financial liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial asset or financial liability (such as repayment in advance, extension, call option or other similar options etc.) (without considering the expected credit losses).

The amortized cost of a financial asset or financial liability is the initially recognized amount net of principal repaid, plus or less the cumulative amortized amount arising from amortization of difference between the amount initially recognized and the amount at the maturity date using effective interest method, and then net of cumulative credit loss allowance (only applicable to financial assets).

5.1 Classification, recognition and measurement of financial assets

After initial recognition, the Company's financial assets of various types are subsequently measured at amortized cost, at fair value through other comprehensive income ("FVTOCI") or at fair value through profit or loss ("FVTPL"), respectively.

If the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows, the Company classifies such financial asset as financial assets at amortized cost, which include cash and bank balances, accounts receivable, other receivables, etc.

If the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset, the Company classifies such financial asset as financial assets at FVTOCI. The accounts receivable and notes receivable classified as at FVTOCI upon acquisition are presented under financing with receivables, while the remaining items due within one year (inclusive) upon acquisition are presented under other current assets.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Financial instruments - continued

5.1 Classification, recognition and measurement of financial assets - continued

5.1.1 Financial assets at amortized cost

Financial assets at amortized cost are subsequently measured at amortized cost using effective interest method. Any gains or losses arising from impairment or derecognition are included in profit or loss.

For financial assets at amortized cost, the Company recognizes interest income using effective interest rate. The Company calculates and recognizes interest income through gross carrying amount of financial assets multiplying effective interest rate, except for the following circumstances:

- For purchased or originated credit-impaired financial assets, the Company calculates and recognizes its interest income based on amortized cost of the financial asset and the effective interest rate through credit adjustment since initial recognition.
- For purchased or originated financial assets that were not credit-impaired but have become credit-impaired in subsequent period, the Company calculates the interest income by applying the effective interest rate to the amortized cost of the financial assets in subsequent period. If the financial instrument is no longer credit-impaired due to improvement of credit risk, and the improvement is linked with an event occurred after application of above provisions, the Company will calculate the interest income by applying effective interest rate to the gross carrying amount of the financial assets.

5.1.2 Financial assets at FVTOCI

For financial assets classified as at FVTOCI, except for the impairment losses or gains and the interest income calculated using the effective interest method which are included in profit or loss for the period, the fair value changes are included in other comprehensive income. The amounts included in profit or loss for each period are equivalent to that as if it has been always measured at amortized cost. Upon derecognition, the accumulated gains or losses previously included in other comprehensive income are transferred to profit or loss for the period.

5.2 Impairment of financial instruments

For financial assets at amortized cost, financial assets classified as at FVTOCI, the Company accounts for the impairment and recognizes the provision for losses on the basis of expected credit loss ("ECL").

For all accounts receivable arising from transactions regulated by Revenue Standards, the Company recognizes the provision for losses at an amount equivalent to the lifetime ECL.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Financial instruments - continued

5.2 Impairment of financial instruments - continued

For other financial instruments (other than purchased or originated credit-impaired financial assets), the Company assesses the changes of credit risk since initial recognition of relevant financial instruments at each balance sheet date. If the credit risk has increased significantly since initial recognition of the financial instruments, the Company recognizes the provision for losses at an amount equivalent to lifetime ECL; if the credit risk has not increased significantly since initial recognition of the financial instruments, the Company recognizes the provision for losses at an amount equivalent to 12-month ECL. The increase or reversal of credit loss provision for financial assets other than those classified as at FVTOCI is recognized as impairment loss or gain and included in profit or loss for the period. For financial assets classified as at FVTOCI, the credit loss provision is recognized in other comprehensive income and the impairment loss or gain is included in profit or loss for the period without reducing the carrying amount of the financial assets in the balance sheet.

Where the Company has measured the provision for losses at an amount equivalent to lifetime ECL of a financial instrument in prior accounting period, but the financial instrument no longer satisfies the criteria of significant increase in credit risk since initial recognition at the current balance sheet date, the Company recognizes the provision for losses of the financial instrument at an amount equivalent to 12-month ECL at the current balance sheet date, with any resulting reversal of provision for losses recognized as impairment gains in profit or loss for the period.

5.2.1 Significant increase in credit risk

The Company uses reasonable and supportable forward-looking information to assess whether the credit risk has increased significantly since initial recognition by comparing the risk of a default occurring on the financial instrument at the balance sheet date with the risk of a default occurring on the financial instrument at the date of initial recognition.

The following information is taken into account when assessing whether the credit risk has increased significantly:

(1) Significant changes in internal price indicators resulting from changes in credit risk;
(2) An actual or expected decrease in the internal credit rating for the debtor;
(3) Adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
(4) An actual or expected significant change in the operating results of the debtor;
(5) Significant adverse changes in regulatory, economic, or technological environment of the debtor;
(6) Significant change in the debtor's economic motives to repay within the time limit specified in contract;
(7) Significant change in the method used by the Company to manage the credit of financial instrument.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Financial instruments - continued

5.2 Impairment of financial instruments - continued

5.2.1 Significant increase in credit risk - continued

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days (inclusive) past due.

At the balance sheet date, if the Company determines that the financial instrument has only lower credit risk, the Company assumes that the credit risk of such financial instrument has not increased significantly since initial recognition. The financial instrument is deemed as having lower credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flows obligations.

5.2.2 Credit-impaired financial assets

When an event or several events that are expected to have adverse impact on the future cash flows of the financial assets have occurred, the financial assets become credit-impaired. The evidences of credit impairment of financial assets include the following observable information:

(1) Significant financial difficulty of the issuer or debtor;
(2) Breach of contract by the debtor, such as a default or delinquency in interest or principal payments;
(3) The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, have granted to the debtor a concession that the creditor would not otherwise consider;
(4) It is probable that the debtor will enter bankruptcy or other financial reorganizations.

Based on the Company's internal credit risk management, the Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collaterals held by the Company).

Irrespective of the outcome of the above assessment, the Company presumes that an event of default on the financial instrument has occurred if the contractual payment of the financial instrument has been more than 90 days (inclusive) past due.。

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Financial instruments - continued

5.2 Impairment of financial instruments - continued

5.2.3 Determination of ECL

The Company determines the credit losses on financing with receivables, other receivables and other current assets on an individual asset basis, and determines the credit losses on accounts receivable on a portfolio basis using an impairment matrix. The financial instruments are grouped based on common risk characteristics. The common credit risk characteristics adopted by the Company include: type of financial instrument, credit risk rating, initial recognition date, remaining contractual term, industry of the debtor, geographical location of the debtor, etc.

The Company determines the ECL of relevant financial instruments using the following method:

- For financial assets, the credit loss represents the present value of the difference between the contractual cash flows receivable by the Company and the cash flows expected to be received by the Company.

The factors reflected by the Company's measurement of ECL of financial instruments include: unbiased probability weighted average amount recognized by assessing a series of possible results; time value of money; reasonable and supportable information related to historical events, current condition and forecast of future economic position that is available without undue cost or effort at the balance sheet date.

5.2.4 Write-down of financial assets

When the Company no longer reasonably expects that the contractual cash flows of financial assets can be collected in aggregate or in part, the Company will directly write down the gross carrying amount of the financial asset, which constitutes derecognition of relevant financial assets.

5.3 Transfer of financial assets

The Company derecognizes a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset is transferred to the transferee; or (3) although the financial asset has been transferred, the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Financial instruments - continued

5.3 Transfer of financial assets - continued

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability. Relevant liabilities are measured using the following methods:

- For transferred financial assets carried at amortized cost, the carrying amount of relevant liabilities is the carrying amount of financial assets transferred with continuing involvement less amortized cost of the Company's retained rights (if the Company retains relevant rights upon transfer of financial assets) with addition of amortized cost of obligations assumed by the Company (if the Company assumes relevant obligations upon transfer of financial assets). Relevant liabilities are not designated as financial liabilities at FVTPL.

- For transferred financial assets carried at fair value, the carrying amount of relevant financial liabilities is the carrying amount of financial assets transferred with continuing involvement less fair value of the Company's retained rights (if the Company retains relevant rights upon transfer of financial assets) with addition of fair value of obligations assumed by the Company (if the Company assumes relevant obligations upon transfer of financial assets). Accordingly, the fair value of relevant rights and obligations shall be measured on an individual basis.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized in other comprehensive income, is recognized in profit or loss. Where the transferred assets are non-trading equity instrument investments designated as at FVTOCI, cumulative gains or losses previously recognized in other comprehensive income are transferred out and included in retained earnings.

If a part of the transferred financial asset qualifies for derecognition, the overall carrying amount of the financial asset prior to transfer is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair value of those parts at the date of transfer. The difference between (1) the carrying amount allocated to the part derecognized on the date of derecognition; and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss. Where the transferred assets are non-trading equity instrument investments designated as at FVTOCI, cumulative gains or losses previously recognized in other comprehensive income are transferred out and included in retained earnings.

For a transfer of a financial asset in its entirety that does not satisfy the derecognition criteria, the Company continues to recognize the transferred financial asset in its entirety. The consideration received from transfer of assets is recognized as a liability upon receipt.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Financial instruments - continued

5.4 Classification of financial liabilities and equity instruments

Financial instruments issued by the Company or their components are classified into financial liabilities or equity instruments on the basis of not only the legal form but also the contractual arrangements and their economic substance, together with the definition of financial liability and equity instrument.

5.4.1 Classification, recognition and measurement of financial liabilities

On initial recognition, financial liabilities are classified into financial liabilities at FVTPL and other financial liabilities.

5.4.1.1 Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost, with gain or loss arising from derecognition or amortization recognized in profit or loss.

If the modification or renegotiation for the contract by the Company and its counterparties does not result in derecognition of a financial liability subsequently measured at amortized cost but the changes in contractual cash flows, the Company will recalculate the carrying amount of the financial liability, with relevant gain or loss recognized in profit or loss. The Company will determine the carrying amount of the financial liability based on the present value of renegotiated or modified contractual cash flows discounted at the original effective interest rate of the financial liability. For all costs or expenses arising from modification or renegotiation of the contract, the Company will adjust the modified carrying amount of the financial liability and make amortization during the remaining term of the modified financial liability.

5.4.2 Derecognition of financial liabilities

The Company derecognizes a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Company (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Company derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss for the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

5. Financial instruments - continued

5.4 Classification of financial liabilities and equity instruments - continued

5.4.3 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued (including refinanced), repurchased, sold and cancelled by the Company are recognized as changes of equity. Change of fair value of equity instruments is not recognized by the Company. Transaction costs related to equity transactions are deducted from equity.

The Company recognizes the distribution to holders of the equity instruments as distribution of profits, and dividends paid do not affect total amount of shareholders equity.

5.5 Offsetting financial assets and financial liabilities

Where the Company has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

6. Inventories

The Company's inventories mainly include raw materials, finished products, in-process and semi-finished products, etc. Inventories are initially measured at cost, which includes purchase costs, processing costs and other expenses incurred to bring the inventory to its current location and condition.

When inventories are delivered, the actual cost of delivered inventories is determined using the weighted average method.

Packaging materials and low-value consumables are amortized using the one-time write-off method.

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the net realizable value is below the cost of inventories, a provision for decline in value of inventories is made.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

6. Inventories - continued

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for decline in value is reversed and the reversal is included in profit or loss for the period.

The perpetual inventory system is maintained for stock system.

7. Fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset if it is probable that economic benefits associated with the asset will flow to the Company and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Useful life	Estimated net residual value rate	Annual depreciation rate
Machinery and equipment	20 years	10%	4.5%
Transportation vehicles	10 years	10%	9%
Office and other equipment	3-10 years	10%	9%-30%

Estimated net residual value of a fixed asset is the estimated amount that the Company would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and accounts for any change as a change in accounting estimate.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

9. Intangible asset

Intangible assets include right-of-use assets computer software.

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortized over its estimated useful life using the straight-line method.

For an intangible asset with a finite useful life, the Company reviews the useful life and amortization method at the end of the year, and makes adjustments when necessary.

9.1 Research and development expenditure

Expenditure during the research phase is recognized as an expense in the period in which it is incurred.

Expenditure during the development phase that meets all of the following conditions at the same time is recognized as intangible asset. Expenditure during development phase that does not meet the following conditions is recognized in profit or loss for the period.

(1) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
(2) the Company has the intention to complete the intangible asset and use or sell it;
(3) the Company can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of 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 of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
(5) the expenditure attributable to the intangible asset during its development phase can be reliably measured.

If the expenditures cannot be distinguished between the research phase and development phase, the Company recognizes all of them in profit or loss for the period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

10. Long-term prepaid expenses

Long-term prepaid expenses represent expenses incurred that should be borne and amortized over the current and subsequent periods (together of more than one year). Long-term prepaid expenses are amortized using the straight-line method over the expected periods in which benefits are derived.

11. Impairment of non-financial assets other than goodwill

The Company reviews the fixed assets, construction in process and intangible assets with a finite useful life at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. If there appears impairment indication, the recoverable amount will be estimated.

Recoverable amount is estimated on an individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. The recoverable amount of an asset or asset group is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

If such recoverable amount is less than its carrying amount, a provision for impairment losses in respect of the deficit is recognized in profit or loss for the period.

When determining the impairment loss of the assets related to the contract cost, the Company shall first determine the impairment loss of the other assets related to the contract that are recognized in accordance with other accounting standards for business enterprises. Then, for the assets related to the contract cost, if the carrying amount is higher than the difference between the following two items, the excess part shall be provided as impairment provision and recognized as the impairment loss of the asset: (1) the remaining consideration that the Company is expected to obtain from the transfer of the goods or services related to the asset; (2) estimated costs to be incurred for the transfer of the relevant goods or services.

Once the impairment loss of such assets is recognized, it is not reversed in any subsequent period.

12. Provisions

Provisions are recognized when the Company has a present obligation related to a contingency such as onerous contract, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

13. Employee benefits

Actually occurred short-term employee benefits are recognized as liabilities, with a corresponding charge to the profit or loss for the period or in the costs of relevant assets in the accounting period in which employees provide services to the Company. Staff welfare expenses incurred by the Company are recognized in profit or loss for the period or the costs of relevant assets based on the actually occurred amounts when it actually occurred. Non-monetary staff welfare expenses are measured at fair value.

Payment made by the Company of social security contributions for employees such as premiums or contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period or the costs of relevant assets in the accounting period in which employees provide services.

During the accounting period in which employees provide services to the Company, the amount which should be paid according to defined contribution plans is recognized as liabilities, and recognized in profit or loss or related costs of assets.

A liability for a termination benefit is recognized in profit or loss for the period at the earlier of when the Company cannot unilaterally withdraw from the termination plan or the redundancy offer and when the Company recognizes any related restructuring costs or expenses.

14. Revenue recognition

The Company's revenue is mainly from the following:

(1) Sales of goods
(2) Rendering of services

The Company recognizes revenue based on the transaction price allocated to the performance obligation when the Company satisfies a performance obligation in the contract, namely, when the customer obtains control over relevant goods or services. A performance obligation is a commitment that the Company transfers a distinct good or service to a customer in the contract. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and amounts expected to be refunded to a customer.

It is a performance obligation satisfied during a period of time and the Company recognizes revenue during a period of time according to the progress of performance if one of the following conditions is met: (i) the customer obtains and consumes economic benefits at the same time of the Company's performance; (ii) the customer is able to control goods or services in progress during the Company's performance; (iii) goods or services generated during the Company's performance have irreplaceable utilization, and the Company is entitled to collect amounts of cumulative performance part which have been done up to now. Otherwise, revenue is recognized at a point in time when the customer obtains control over the relevant goods or services.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

14. Revenue recognition - continued

The Company adopts input method, i.e. the input by the Company for purpose of fulfilment of performance obligation to determine the appropriate progress of performance. Where the progress cannot be determined reasonably, the revenue is recognized based on the amount of cost that is expected to be compensated based on the cost already incurred, until the progress of performance is reasonably determined.

14.1 Costs of obtaining a contract

For the incremental cost of obtaining the contract (cost that will not occur if the contract is not obtained) that is expected to be recoverable, it is recognized as an asset, and shall be amortized on a basis that is consistent with the revenue recognition of the goods or services to which the asset relates and recognized in profit or loss for the period. Other expenses incurred for obtaining the contract is included in profit or loss for the period when incurred, except for those explicitly assumed by the customer.

15. Government grants

Government grants are monetary assets and non-monetary assets from the government to the Company at no consideration. A government grant is recognized only when the Company can comply with the conditions attaching to the grant and the Company will receive the grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable.

A government grant related to an asset is charged against carrying amount of related assets or recognized as deferred income and included in profit or loss over the useful life of the related asset with a reasonable and systemic method.

For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income and recognized in profit or loss or charged against the related cost over the periods in which the related costs or losses are recognized; if the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss or charged against related cost for the period.

A government grant related to the Company's daily activities is recognized in other income or charged against related cost and expense based on the nature of economic activities; a government grant not related to the Company's daily activities is recognized in non-operating income and expenses.

16. Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

17. Income tax

The income tax expenses include current income tax and deferred income tax.

17.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

17.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the carrying amount of those items that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognized using the balance sheet liability method.

Deferred tax is generally recognized for all temporary differences. Deferred tax assets for deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilized.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realized or the liability is settled.

Current and deferred tax expenses or income are recognized in profit or loss for the period, except when they arise from transactions or events that are directly recognized in other comprehensive income, in which case they are recognized in other comprehensive income.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilized. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

17. Income tax - continued

17.3 Income tax offsetting

When the Company has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Company has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

18. Translation of transactions and financial statements denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognized in profit or loss for the period, except that (1) exchange differences related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalization are capitalized as part of the cost of the qualifying asset during the capitalization period; (2) exchange differences related to hedging instruments for the purpose of hedging against foreign currency risks are accounted for using hedge accounting; (3) exchange differences arising from changes in the gross carrying amounts (other than the amortized cost) of available-for-sale monetary items are recognized as other comprehensive income.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognized in profit or loss or as other comprehensive income.

19. Leases

A lease is a contract whereby the lessor conveys to the lessee in return for a consideration the right to use an asset for an agreed period of time.

The Company assesses whether a contract is or contains a lease at inception date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

19. Leases - continued

19.1 The Company as lessee

19.1.1 Right-of-use assets

Except for short-term leases, at the commencement date of the lease, the Company recognizes a right-of-use asset. The commencement date of the lease is the date on which a lessor makes an underlying asset available for use by the Company. The Company measures the right-of-use assets at cost. The cost of the right-of-use assets comprises:

- he amount of the initial measurement of the lease liabilities
- any lease payments made at or before the commencement date, less any lease incentives received.

The Company depreciates right-of-use assets by reference to the relevant depreciation provisions of Accounting Standards for Business Enterprises No. 4 - Fixed Assets. The right-of-use assets are depreciated over the remaining useful lives of the leased assets where the Company is reasonably certain to obtain ownership of the underlying assets at the end of the lease term. Otherwise, right-of-use assets are depreciated over the shorter of the lease term and the remaining useful lives of the leased assets.

19.1.2 Lease liabilities

Except for short-term leases, at the commencement date of the lease, the Company measures the lease liabilities at the present value of the lease payments that are not paid at that date. In calculating the present value of lease payments, the Company uses the interest rate implicit in the lease as the discount rate. The Company uses the incremental borrowing rate if the interest rate implicit in the lease is not readily determinable.

Lease payments refer to payments relating to the right to use leased assets during the lease term which are made by the Company to the lessor, including:

- fixed payments and in-substance fixed payments, less any lease incentives receivable (if any);

After the commencement date of the lease, the Company calculates interest expenses of lease liabilities for each period of the lease term based on fixed periodic rate, and recognizes such expenses in profit or loss.

19.1.3 Short-term leases

The Company chooses not to recognize right-of-use assets and lease liabilities for short-term leases of plant and office. A short-term lease is a lease that at the commencement date, has a lease term of 12 months or less and does not contain a call option. The Company shall recognize the lease payments associated with short-term leases in profit or loss or cost of related assets on a straight-line basis over the lease term.

V. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES IN ACCOUNTING ESTIMATES

In the application of the Company's accounting policies, which are described in Note IV, the Company is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainty of the operating activities. These judgments, estimates and assumptions are based on historical experience of the Company's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned judgments, estimates and assumptions are reviewed regularly on a going concern basis. The effect of a change in accounting estimate is recognized in the period of the change, if the change affects that period only; or recognized in the period of the change and future periods, if the change affects both.

- Critical assumptions and uncertainties in accounting estimates

The followings are critical assumptions and uncertainties in accounting estimates that may cause significant adjustments to carrying amount of assets and liabilities in future periods at the balance sheet date:

<u>Bad debt provision for accounts receivable</u>

he Company calculates expected credit losses through default risk exposure and expected credit loss rate, and determines the expected credit loss rate based on default probability and default loss rate. In determining the expected credit loss rate, the Company uses data such as internal historical credit loss experience, etc., and adjusts historical data based on current conditions and forward-looking information. When considering forward-looking information, the indicators used by the Company include the risk of economic downturn, external market environment, technological environment and changes in customer situations. The Company regularly monitors and reviews assumptions related to the calculation of expected credit losses. As at 31 December 2022, the balance of the Company's provision for decline in value of inventories was RMB 8,986,496.71 (31 December 2021: RMB 8,986,496.71).

<u>Provision for decline in value of inventories</u>

As stated in Note IV 6, inventories are measured at the lower of cost and net realizable value. Net realisable value refers to the estimated selling price of inventories less the estimated costs of completion, the estimated selling expenses and relevant taxes. Since a considerable proportion of the Company's working capital is used for inventory, the Company has special operating procedures to control this risk. The Company will regularly conduct a comprehensive count of inventories to determine whether there are outdated and obsolete inventories and to review their impairment. Review procedures include comparing the carrying amount of outdated and obsolete inventories with their corresponding net realisable values so as to determine whether any provision for outdated and obsolete inventory shall be made in the financial statements. Appropriate accounting estimates are required for the selling price of inventories, the costs of completion, the selling expenses and the related taxes that have being applied to the net realizable value.

V. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES IN ACCOUNTING ESTIMATES - continued

- Critical assumptions and uncertainties in accounting estimates - continued

Provision for decline in value of inventories - continued

The management has taken into account the historical experience and current production costs as well as selling expenses based on the best estimates to ensure the reasonableness of its accounting estimates. Based on the above procedures, the management of the Company believes that adequate provision for decline in value of these outdated or obsolete inventories has been made. As at 31 December 2022, the balance of the Company's provision for decline in value of inventories was RMB2,613,059.68 (31 December 2021: RMB1,010,901.97).

VI. TAXES

Value-added tax ("VAT")

VAT payable is the balance of output VAT less deductible input VAT. The Company is located in Changzhou Comprehensive Bonded Zone, and its revenue on sales of goods and rendering of services is subject to the preferential VAT rate of 0% of the Bonded Zone.

Income tax

The Company's income tax rate is 25% (2021: 25%).

Other taxes

The Company's city construction and maintenance tax is levied at 7% of turnover tax paid, and education surcharge and local education surcharge are levied at 5% of turnover tax paid.

VII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	31/12/2022			31/12/2021		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Cash						
RMB	-	-	-	-	-	42,257.98
Bank balances						
RMB	-	-	6,044,697.36	-	-	363,871.18
USD	420,759.77	6.9645	2,930,360.42	308,532.90	6.3757	1,967,113.22
Total			8,975,057.78			2,373,242.38

As at the balance sheet date, the Company had no restricted cash and bank balances.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

2. ACCOUNTS RECEIVABLE

	31/12/2022 RMB	31/12/2021 RMB
Accounts receivable from contracts with customers	66,636,153.85	97,178,257.15
Less: Credit loss allowance	8,986,496.71	8,986,496.71
Carrying amount	57,649,657.14	88,191,760.44

The above credit loss allowance takes into account current conditions and projections of future economic conditions.

Aging analysis of accounts receivable is as follows:

	31/12/2022				31/12/2021			
	Amount RMB	rate %	Bad debt provision RMB	Carrying amount RMB	Amount RMB	rate %	Bad debt provision RMB	Carrying amount RMB
Within 1 year	57,649,657.14	86.5	-	57,649,657.14	10,657,368.01	11.0	-	10,657,368.01
1 to 2 years	-	-	-	-	51,689,256.10	53.2	-	51,689,256.10
2 to 3 years	-	-	-	-	8,403,197.59	8.6	-	8,403,197.59
Above 3 years	8,986,496.71	13.5	8,986,496.71	-	26,428,435.45	27.2	8,986,496.71	17,441,938.74
Total	66,636,153.85	100.0	8,986,496.71	57,649,657.14	97,178,257.15	100.0	8,986,496.71	88,191,760.44

The changes in the bad debt provision for account receivable are as follows:

	2022	2021
	Lifetime ECL (Not credit-impaired) RMB	Lifetime ECL (Not credit-impaired) RMB
Opening balance	8,986,496.71	8,711,927.60
Provision	-	274,569.11
Closing balance	8,986,496.71	8,986,496.71

3. PREPAYMENTS

The aging analysis of prepayments is as follows:

	31/12/2022		31/12/2021	
Aging	Balance RMB	Rate %	Balance RMB	Rate %
Within 1 year	10,394,019.51	96.48	5,516,900.53	98.85
1 to 2 years	314,891.50	2.92	-	-
2 to 3 years	-	-	14,000.00	0.25
Above 3 years	64,000.00	0.60	50,000.00	0.90
Total	10,772,911.01	100.00	5,580,900.53	100.00

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

4. OTHER RECEIVABLES

The nature of other receivables is detailed as follows:

	31/12/2022 RMB	31/12/2021 RMB
Deposit	742,667.00	190,667.00
Others	794,367.97	50,325.32
Less: provision for credit losses	-	-
Book value	1,537,034.97	240,992.32

Due to other receivables' credit risks at the year end have not increased significantly since the initial recognition, The company's managment believes that other receivables have no significant credit loss risk.

5. INVENTORIES

(1) Item

	31/12/2022 RMB	31/12/2021 RMB
Raw materials	25,333,694.59	11,588,196.34
Semi-finished product	27,316,614.97	8,037,272.81
Finished goods	29,923,712.19	16,780,484.82
Subtotal	82,574,021.75	36,405,953.97
Less: Provision for decline in value of inventories	2,613,059.68	1,010,901.97
Total	79,960,962.07	35,395,052.00

(2) Changes in provision for decline in value of inventories are as follows:

2022

	31/12/2021 RMB	Accrual RMB	Reversal RMB	31/12/2022 RMB
Raw materials	495,296.68	-	(495,296.68)	-
Finished goods	515,605.29	2,097,454.39	-	2,613,059.68
Total	1,010,901.97	2,097,454.39	(495,296.68)	2,613,059.68

As at 31 December 2022, the Company had no inventories with limited ownership.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

6. FIXED ASSETS

	Buildings RMB	Machinery and equipment RMB	Office and other equipment RMB	Total RMB
COST				
At 1 January 2022	23,798,123.76	261,683,325.47	10,886,612.71	296,368,061.94
Acquisitions	-	1,679,058.23	1,066,863.71	2,745,921.94
Transfer from construction in progress	-	75,567.67	118,191.18	193,758.85
Decreases	-	(11,224,313.36)	(1,047,451.67)	(12,271,765.03)
At 31 December 2022	23,798,123.76	252,213,638.01	11,024,215.93	287,035,977.70
Accumulated depreciation				
At 1 January 2022	15,272,961.51	197,813,575.87	9,356,041.93	222,442,579.31
Provided for the year	1,133,825.46	4,550,600.29	196,513.11	5,880,938.86
Decreases	-	(9,943,379.86)	(936,459.96)	(10,879,839.82)
At 31 December 2022	16,406,786.97	192,420,796.30	8,616,095.08	217,443,678.35
Impairment				
At 1 January 2022	-	26,355,444.12	383,873.62	26,739,317.74
Decreases	-	(603,159.70)	(10,109.09)	(613,268.79)
At 31 December 2022	-	25,752,284.42	373,764.53	26,126,048.95
Net book value				
At 1 January 2022	8,525,162.25	37,514,305.48	1,146,697.16	47,186,164.89
At 31 December 2022	7,391,336.79	34,040,557.29	2,034,356.32	43,466,250.40

7. CONSTRUCTION IN PROGRESS

	31/12/2022 RMB	31/12/2021 RMB
Construction in progress	9,302,996.76	9,222,345.13
Less: impairment	3,275,508.00	3,275,508.00
Net book value	6,027,488.76	5,946,837.13

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

8. INTANGIBLE ASSETS

	Land use rights RMB	Patent RMB	Total RMB
Cost			
At 1 January 2022	1,854,749.80	-	1,854,749.80
Addition for the year	-	1,577,375.00	1,577,375.00
At 31 December 2022	1,854,749.80	1,577,375.00	3,432,124.80
Accumulated amortization			
At 1 January 2022	562,607.50	-	562,607.50
Provided for the year	37,095.00	202,227.60	239,322.60
At 31 December 2022	599,702.50	202,227.60	801,930.10
Net book value			
At 1 January 2022	1,292,142.30	-	1,292,142.30
At 31 December 2022	1,255,047.30	1,375,147.40	2,630,194.70
Expected service life	50 years	6.5 years	
Remaining service life	33.8 years	5.67 years	

As at 31 December 2022 and 2021, the Company had no intangible assets with limited ownership.

9. LONG-TERM PREPAID EXPENSES

	Leased plant construction project RMB
Cost	
At 1 January 2022 and 1 January 2021	3,078,050.01
Accumulated amortization	
At 1 January 2022	1,606,429.41
Provided for the year	931,671.98
At 31 December 2022	2,538,101.39
Net book value	
At 1 January 2022	1,471,620.60
At 31 December 2022	539,948.62

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

10. OTHER NON-CURRENT ASSETS

	31/12/2022 RMB	1/1/2022 RMB
Prepayment for construction equipment	3,229,432.60	-

11. PROVISION FOR ASSET IMPAIRMENTS

	1/1/2022 RMB	Provision RMB	Reversals RMB	31/12/2022 RMB
Provision for credit impairment	8,986,496.71	-	-	8,986,496.71
Provision for decline in value of inventories	1,010,901.97	2,097,454.39	(495,296.68)	2,613,059.68
Provision for decline in value of fixed assets	26,739,317.74	-	(613,268.79)	26,126,048.95
Provision for decline in value of construction in progress	3,275,508.00	-	-	3,275,508.00
Total	40,012,224.42	2,097,454.39	(1,108,565.47)	41,001,113.34

12. SHORT-TERM BORROWINGS

	31/12/2022 RMB	31/12/2021 RMB
Mortgage loan (Note 1)	8,000,000.00	8,377,669.80
Guaranteed loan (Note 2)	4,500,000.00	5,500,000.00
Total	12,500,000.00	13,877,669.80

Note 1: As at 31 December 2022, the Company's short-term loan of RMB8,000,000.00 (31 December 2021: RMB8,377,669.80) is a loan secured by property. The interest rate of the aforesaid loan is 3.00%-5.00% per annum.

Note 2: As at 31 December 2022, the Company's short-term loan of RMB4,500,000.00 (31 December 2021: RMB5,500,000.00) is a guaranteed loan, of which the guarantor is Jiangsu Changzhou Hi-Tech Credits Financing Guarantee Co., Ltd. The interest rate of the aforesaid loan is 4.10%-4.59% per annum.

13. CONTRACT LIABILITIES

	31/12/2022 RMB	31/12/2021 RMB
Advance from related party customers	12,177,783.89	-
Advance from third party customers	2,505,553.71	5,004,872.69
Total	14,683,337.60	5,004,872.69

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

13. CONTRACT LIABILITIES - continued

The company accounts the advance from customers based on the sales contract as contract liabilities, and the relevant contract liabilities are recognized as sales when the control of the commodity is transferred to the customer.

The book value of contract liabilities at the end of last year is RMB 5,004,872.69, which has been recognized as revenue this year. Book value of contract liabilities at the end of 2022 is expected to be recognized as revenue in 2023.

14. EMPLOYEE BENEFITS PAYABLE

Item	1/1/2022 RMB	Accruals RMB	Payments RMB	31/12/2022 RMB
Wages or salaries, bonuses, allowances and subsidies	4,198,674.36	37,845,220.02	35,340,742.58	6,703,151.80
Social insurance premium	-	1,662,412.46	1,662,412.46	-
Including: Medical insurance	-	1,373,026.61	1,373,026.61	-
Work injury insurance	-	144,589.46	144,589.46	-
Maternity insurance	-	144,796.39	144,796.39	-
Housing funds	232,141.00	1,632,273.60	1,632,273.60	232,141.00
Defined contribution plan (Note)	-	3,223,804.33	3,223,804.33	-
Pension insurance	-	3,119,974.32	3,119,974.32	-
Unemployment insurance	-	103,830.01	103,830.01	-
Labor union funds	-	81,490.28	81,490.28	-
Total	4,430,815.36	44,445,200.69	41,940,723.25	6,935,292.80

Note: Defined contribution plan

The Company participates in pension insurance plan and unemployment insurance plan established by the government authorities pursuant to the relevant laws and regulations. According to such plans, the Company is required to contribute 19% and 0.5% of employee's basic salary respectively to such plans. Besides the aforesaid monthly contributions, the Company no longer undertakes further payment obligation. Relevant expenditures are included in profit or loss for the period or cost of related assets.

In 2022, the Company should contribute RMB 3,119,974.32 and RMB 103,830.01 (2021: RMB 2,460,528.96 and RMB 102,522.04) to pension insurance and unemployment insurance plans respectively. The relevant fees have been paid at year end.

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

15. TAXES PAYABLE

Item	31/12/2021 RMB	Accruals RMB	Payments RMB	31/12/2022 RMB
Value added tax	-	(147,700.86)	-	(147,700.86)
Disability insurance fund	96,000.00	96,000.00	90,721.02	101,278.98
Individual income tax	48,603.40	323,244.60	322,568.54	49,279.46
Property tax	45,452.74	255,829.76	252,128.82	49,153.68
Stamp duty	-	77,303.22	52,461.07	24,842.15
Land use tax	13,332.00	53,328.00	53,328.00	13,332.00
Reclassification of value added tax debit balance	-	147,700.86	-	147,700.86
Total	203,388.14	805,705.58	771,207.45	237,886.27

16. OTHER CURRENT LIABILITIES

	31/12/2022 RMB	31/12/2021 RMB
Accrued other fee	3,417,504.63	1,203,380.12

17 PAID-IN CAPITAL

The registered capital of the Company is USD 76,500,000.00, and the paid-in capital is USD 75,000,000.00, Not all of them are available by December 31, 2022. The contributions from investors according to articles of association of the Company are as follows:

	31/12/2022 & 31/12/2021		
	USD	Proportion %	RMB
LITHIUM WERKS B.V.	75,000,000.00	100	509,446,364.80

18. ACCUMULATED LOSSES

	2022 RMB	2021 RMB
Accumulated losses at the beginning of the year	(361,834,524.55)	(322,909,979.13)
Add: Net losses for the year	(1,394,233.95)	(38,924,545.42)
Accumulated losses at the end of the year	(363,228,758.50)	(361,834,524.55)

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

19. OPERATING INCOME

	Year ended 31/12/2022 RMB	Year ended 31/12/2021 RMB
Principal operating income	175,836,906.68	62,070,067.38
Other operating income	299,376.37	9,094,066.37
Total	176,136,283.05	71,164,133.75

(1) The Company's operating income is recognized at a certain point.

(2) Obligation to perform the contract

The company's main business activities are engaged in the sale of energy storage batteries. Usually, there is only one performance business in the contract for the sale of commodities, and the consideration of the products sold is determined in accordance with the fixed price agreed in the sales contract. The Company recognizes revenue at the point when control of the relevant commodity is transferred to the customer.

At the same time, the Company shall carry out its business in the form of credit sales according to the credit status of its counterparties.

20. OPERATING COSTS

	2022 RMB	2021 RMB
Costs of principal operating activities	163,739,032.66	89,690,782.44
Costs of other operating activities	36,583.45	7,294,911.43
Total	163,775,616.11	96,985,693.87

21. TAXES AND LEVIES

Items	2022 RMB	2021 RMB
Property tax	255,829.76	181,810.96
Disability insurance fund	96,000.00	78,487.43
Stamp duty	77,303.22	30,106.20
Land use tax	53,328.00	53,328.00
Total	482,460.98	343,732.59

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

22. ADMINISTRATIVE EXPENSES

Items	2022 RMB	2021 RMB
Salary	6,913,647.07	3,394,387.90
Bonus	1,217,210.06	1,010,141.05
Social insurance premium	1,138,123.78	715,914.20
Rental fee	1,551,295.38	-
Housing fund	637,820.96	-
Office fee	664,489.48	159,982.20
Overtime payment	618,247.86	5,631.46
Business entertainment expenses	331,320.35	285,768.13
Employee welfare expenses	278,296.21	92,387.50
Service charge	231,000.12	63,881.62
Utility bill	190,267.26	-
Consulting fee	179,336.48	2,000.00
Labor protection fee	155,761.18	126,285.00
Repairment cost	127,633.22	101,740.00
Communication charge	118,164.44	24,467.03
Insurance expenses	56,279.52	81,416.05
Attorney fee	53,584.90	10,000.00
Recruitment fee	46,578.87	6,880.00
Travel expenses	40,565.11	14,432.93
Transportation charge	38,467.10	-
Depreciation expense	34,802.62	28,234.26
Car expenses	33,242.99	58,306.58
Conference fee	32,850.96	116,338.19
Other taxes fee	20,999.14	-
Training fee	16,925.00	38,440.00
Other expenses	472,712.04	60,908.13
Total	15,199,622.10	6,397,542.23

VIII. NOTES TO ITEMS IN THE FINANCIAL STATEMENTS - continued

23. FINANCIAL EXPENSES

	2022 RMB	2021 RMB
Interest expenses	632,494.70	983,506.11
Cash discount	-	647,861.29
Less: Interest income	3,050.78	4,754.72
Exchange (losses) gains	(4,972,547.75)	3,019,686.65
Service charges	58,694.94	80,404.06
	(4,284,408.89)	4,726,703.39

24. IMPAIRMENT LOSSES OF CREDIT

	2022 RMB	2021 RMB
ECL	-	(274,569.11)

25. IMPAIRMENT LOSSES OF ASSETS

	2022 RMB	2021 RMB
Provision for decline in value of inventories	(1,602,157.71)	2,081,987.25
Provision for decline in value of construction in progress	-	(3,275,508.00)
Total	(1,602,157.71)	(1,193,520.75)

26. INCOME TAX EXPENSES

	2022 RMB	2021 RMB
Deferred income tax expenses	-	-
Current income tax expenses	-	-
	-	-

VII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS - continued

26. INCOME TAX EXPENSES - continued

Reconciliation of income tax expenses to total profit (loss) is as follows:

	2022 RMB	2021 RMB
Total loss	(1,394,233.95)	(38,924,545.42)
Income tax expenses calculated at 25% (2021: 25%)	(348,558.49)	(9,731,136.36)
Effect of expenses that are not deductible for tax purposes	63,644.08	73,563.77
Effect of unrecognized deductible losses and deductible temporary differences	284,914.41	9,657,572.59
Income tax expense	-	-

Details of deferred tax assets not recognized:

	2022 RMB	2021 RMB
Deductible losses	139,397,361.51	139,246,592.79
Deductible temporary differences	41,001,113.34	40,012,224.42
Total	180,398,474.85	179,258,817.21

Note: Due to the uncertainty of obtaining enough taxable income in the future, it is not recognized as a deferred income tax asset.

Deductible losses on unrecognized deferred tax assets will mature in the following years:

	2022 RMB	2021 RMB
2023	78,047,202.69	78,047,202.69
2024	15,369,688.95	15,369,688.95
2025	9,315,351.96	9,315,351.96
2026	36,514,349.19	36,514,349.19
2027	150,768.72	-
Total	139,397,361.51	139,246,592.79

VII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS - continued

27. SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT

	2022 RMB	2021 RMB
(1) Reconciliation of net profit (loss) to cash flows from operating activities:		
Net loss	(1,394,233.95)	(38,924,545.42)
Add: Provision for impairment of assets	1,602,157.71	1,193,520.75
Provision for impairment of credit	-	274,569.11
Depreciation of fixed assets	5,880,938.86	6,226,594.36
Amortization of intangible assets	219,099.84	37,095.00
Amortization of long-term prepaid expenses	931,671.98	1,606,429.41
Losses from disposal of fixed assets, intangible assets and other long-term assets	-	20,339.00
Losses from retirement of fixed assets	697,465.41	-
Financial expenses	586,373.30	1,626,612.68
(Increase) decrease in inventories	(46,168,067.78)	21,708,341.13
Decrease in operating receivables	27,656,337.14	20,245,985.13
Increase (Decrease) in operating payables	26,065,377.98	(2,065,236.94)
Net cash flow from operating activities	16,077,120.49	11,949,704.21
(2) Net changes in cash and cash equivalents:		
Closing balance of cash	8,975,057.78	2,373,242.38
Less: Opening balance of cash	2,373,242.38	1,699,039.34
Net decrease in cash and cash equivalents	6,601,815.40	674,203.04

28. CASH AND CASH EQUIVALENTS

	2022 RMB	2021 RMB
Cash		
Including: Cash	-	42,257.98
Unrestricted bank deposit	8,975,057.78	2,330,984.4
Cash and cash equivalents balance	8,975,057.78	2,373,242.38

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Related party where a control relationship exists is as follows:

Name	Place of registration	Business nature	Shareholding proportion	Proportion of voting rights
RELIANCE LITHIUM WERKS B.V.	Holland	Investment and management	100%	100%

The Company's ultimate holding company is RELIANCE INDUSTRIES LIMITED.

(2) Other related parties having transactions with the Company where a control relationship does not exist are as follows:

Before acquisition

Related party	Relationship
LITHIUM WERKS B.V.	Parent company
LITHIUM WERKS GROUP B.V.	Under same ultimate holding company
LITHIUM WERKS, INC.	Under same ultimate holding company
LITHIUM WERKS(BELFAST), LIMITED	Under same ultimate holding company
VALENCE ENERGY TECHNOLOGY (SUZHOU) CO., LTD	Under same ultimate holding company

After acquisition

Related party	Relationship
RELIANCE LITHIUM WERKS USA LLC	Under same ultimate holding company

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

(3) Significant transactions between the Company and the above related parties in the current year:

(a) Sales and purchases

	2022 RMB	2021 RMB
Sale goods		
LITHIUM WERKS B. V.	26,951,641.94	16,594,379.26
LITHIUM WERKS, INC.	6,740,353.57	22,437,804.69
VALENCE ENERGY TECHNOLOGY (SUZHOU) CO., LTD	-	400.00
RELIANCE LITHIUM WERKS B.V.	36,622,404.97	-
RELIANCE LITHIUM WERKS USA LLC	58,105,841.15	-
	128,420,241.63	39,032,583.95
Sale packaging material		
LITHIUM WERKS, INC.	-	724.65

(4) Balance due from/to related parties

	31/12/2022 RMB	31/12/2021 RMB
Accounts receivable		
LITHIUM WERKS B.V.	-	1,608,998.49
LITHIUM WERKS GROUP B.V.	-	9,031,179.05
LITHIUM WERKS, INC.	-	96,909,375.12
LITHIUM WERKS(BELFAST), LIMITED	-	1,173,702.61
RELIANCE LITHIUM WERKS USA LLC	51,367,908.40	-
Total	51,367,908.40	108,723,255.27
Advance from related parties		
VALENCE ENERGY TECHNOLOGY (SUZHOU) CO., LTD	-	308,910.40
RELIANCE LITHIUM WERKS B.V.	12,255,993.22	-
Total	12,255,993.23	308,910.40

IX. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's major financial instruments include cash and bank balance, accounts receivable, other receivables, short-term borrowings, accounts payable and other payables etc. Details of these financial instruments are disclosed in Note VII. Risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure the risks are monitored at a certain level.

Financial assets	31/12/2022	31/12/2021
	RMB	RMB
Cash and cash equivalents	8,975,057.78	2,373,242.38
Accounts receivable	57,649,657.14	88,191,760.44
Other receivables	1,537,034.97	240,992.32

Financial liabilities	31/12/2022	31/12/2021
	RMB	RMB
Short-term borrowings	12,500,000.00	13,877,669.80
Accounts payable	31,072,714.63	15,519,310.45
Other payables	297,251.90	54,411.53

The Company adopts sensitivity analysis technique to analyze how the profit or loss for the period and owners' equity would have been affected by reasonably possible changes in the relevant risk variables. As it is unlikely that risk variables will change in an isolated manner, and the interdependence among risk variables will have significant effect on the amount ultimately influenced by the changes in a single risk variable, the following are based on the assumption that the change in each risk variable is on a stand-alone basis.

1. Risk management objectives and policies

The Company's risk management objectives are to achieve a proper balance between risks and yield, minimize the adverse impacts of risks on the Company's operation performance, and maximize the benefits of the investors. Based on these risk management objectives, the Company's basic risk management strategy is to identify and analyze the Company's exposure to various risks, establish an appropriate maximum tolerance to risk, implement risk management, and monitor regularly and effectively these exposures to ensure the risks are monitored at a certain level.

1.1 Market risk

1.1.1 Currency risk

Currency risk is the risk that losses will occur because of changes in foreign exchange rates. The Company's exposure to the currency risk is primarily associated with USD. The Company has purchases and sales denominated in USD while the Company's other principal activities are denominated and settled in RMB. As at 31 December 2022, the balances of the Company's assets and liabilities are both denominated in RMB except that the assets set out below are denominated in USD. Currency risk arising from the assets and liabilities denominated in foreign currencies may have impact on the Company's performance.

IX. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued

1. Risk management objectives and policies - continued

1.1 Market risk - continued

1.1.1 Currency risk - continued

	31/12/2022 RMB	31/12/2021 RMB
Assets and liabilities in USD		
Cash and cash equivalents	2,930,360.42	1,967,113.22
Accounts receivable	57,649,657.14	87,515,610.19
Short-term borrowings	-	8,377,669.80
Accounts payable	15,769,185.38	6,746,825.16

The Company closely monitors the effects of changes in the foreign exchange rates on the Company's currency risk exposures. The Company currently does not take any measures to hedge currency risk exposures.

Sensitivity analysis on currency risk:

Where all other variables are held constant, reasonably possible changes in the foreign exchange rate may have the following pre-tax effect on the profit or loss for the period and owners' equity:

		2022		2021	
Item	Change in exchange rate	Effect on profit RMB'000	Effect on owners' equity RMB'000	Effect on profit RMB'000	Effect on owners' equity RMB'000
USD	5% appreciation against RMB	2,240,541.61	2,240,541.61	3,717,911.42	3,717,911.42
USD	5% depreciation against RMB	(2,240,541.61)	(2,240,541.61)	(3,717,911.42)	(3,717,911.42)

1.1.2. Interest rate risk

The Company's risk of changes in the fair value of financial instruments caused by changes in interest rates is mainly related to fixed-rate borrowings (see Note IX, (3) (c) for details). The Company pays close attention to the impact of interest rate changes on the Company's interest rate risk. The Company has not taken any measures to avoid interest rate risk.

1.2. Credit risk

As at 31 December 2022, the Company's maximum exposure to credit risk which will cause a financial loss to the Company is arising from the loss on financial assets of the Company due to failure to discharge an obligation by the counterparties, specifically includes:

- The carrying amount of the respective recognized financial assets as stated in the balance sheet.

IX. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued

1. Risk management objectives and policies - continued

1.2. Credit risk - continued

In order to minimize the credit risk, the Company has assigned special personnel responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of financial assets at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Company considers that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because they are deposited with banks with high credit ratings.

The Company's risk exposure is spread across multiple contracting parties and customers, so the Company has no significant credit concentration risk.

1.3. Liquidity risk

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Company's management closely monitors the liquidity position and expects to have adequate sources of financing to fund the Company's operations, so the Company's management believes that the Company is not exposed to significant liquidity risk.

The financial liabilities held by the company are listed according to the maturity of undiscounted remaining contractual obligations as follows:

	31/12/2022				
	Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Total
	RMB	RMB	RMB	RMB	RMB
Accounts payable	31,055,640.16	17,074.47	-	-	31,072,714.63
Other payables	297,251.90	-	-	-	297,251.90
Short-term borrowing	12,917,710.14	-	-	-	12,917,710.14
Total	44,270,602.20	17,074.47	-	-	44,287,676.67

X. FAIR VALUE

The management of the Company believes that the carrying amounts of financial assets and financial liabilities measured at amortized cost in the financial statements approximate their fair values.

Ⅺ. CONTINGENCIES

As at the balance sheet date, the Company has no significant contingencies.

Ⅻ. SUBSEQUENT EVENTS

The Company has no significant events subsequent to the balance sheet date that need to be disclosed.