

Auditor's Report

Shanghai HiTeC Plastics Co., Ltd.

Rong Cheng Shen Zi [2020]No.201Z0027

RSM China CPA LLP

China, Beijing

English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

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AUDITORS' REPORT

Rong Cheng Shen Zi [2020] No. 201Z0027

To the Board of Shanghai HiTeC Plastics Co., Ltd.,

1. Opinion

We have audited the financial statements of Shanghai HiTeC Plastics Co., Ltd. (the Company), which comprise the statement of financial position as at 31 December, 2019, and the profit and profit distribution statement, cash flow statement for the year then ended, statement of changes in owners' equity and notes to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with the Accounting System for Business Enterprises.

2. Basis for opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with China Code of Ethics for 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 audit opinion.

3. Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Accounting System for Business Enterprises, and designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 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.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 the auditing standards, we exercise professional judgment and maintain professional scepticism 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 Company's internal control.
- 3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 4) Conclude on the appropriateness of 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, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

RSM China CPA LLP

China, Beijing

Balance Sheet

2019/12/31

Company: Shanghai HiTeC Plastics Co., Ltd.

RMB

Item	Note	Closing balance	Opening balance
Current assets:			
Cash at bank and on hand	6.1	215,462,177.30	172,901,327.20
Short-term investments			
Notes receivable	6.2	9,200,000.00	11,900,000.00
Dividends receivable			
Interest receivable		833,885.52	126,032.24
Accounts receivable	6.3	22,452,093.99	22,710,063.64
Other receivables	6.4	1,732,208.00	2,115,492.13
Advances to suppliers		7,665,785.95	3,535,206.08
Subsidies Receivable			
VAT refunds receivable on export sales			
Inventories	6.5	85,744,250.21	92,945,878.78
Prepaid expenses		1,737,626.22	970,119.82
Long-term debt investment due within one year			
Other current assets	6.6	4,664,081.36	6,482,801.51
Sub-total of current assets		349,492,108.55	313,686,921.40
Long-term investments:			
Long-term equity investments	6.7	20,000,000.00	
Long-term debt investments			
Sub-total of long-term investments		20,000,000.00	
Fixed assets:			
Fixed assets-cost	6.8	144,371,299.21	142,786,820.50
Less: Accumulated depreciation	6.8	104,833,062.20	98,316,172.43
Fixed assets-net book value	6.8	39,538,237.01	44,470,648.07
Less: Provision for impairment of fixed assets			
Fixed assets-net	6.8	39,538,237.01	44,470,648.07
Construction materials			
Construction in progress	6.9	38,600,345.40	16,731,134.29
Fixed assets held for disposal			
Sub-total of fixed assets		78,138,582.41	61,201,782.36
Intangible and other assets:			
Intangible assets	6.10	3,955,663.76	4,166,739.98
Long-term deferred expenses			
Other long-term assets			
Sub-total of intangible and other assets		3,955,663.76	4,166,739.98
Deferred taxes:			
Deferred tax assets			
TOTAL ASSETS		451,586,354.72	379,055,443.74

Balance Sheet (Continued)

2019/12/31

Company: Shanghai HiTeC Plastics Co., Ltd.

RMB

Item	Note	Closing balance	Opening balance
Current liabilities:			
Short-term loans			
Notes payable			
Accounts payable	6.11	33,408,058.96	25,221,616.71
Advances from customers		4,983,635.70	1,453,917.99
Accrued payroll		284,743.00	
Staff welfare payable			
Dividends payable			
Interest payable			
Taxes payable	6.12	13,692,908.85	12,272,819.95
Other amount payables			
Other payables		13,463,337.09	2,182,855.82
Accrued expenses		702,300.46	202,297.99
Provisions			
Deferred income			
Long-term liabilities due within one year			
Other current liabilities			
Sub-total of current liabilities		66,534,984.06	41,333,508.46
Long-term liabilities:			
Long-term borrowings			
Bonds payable			
Long-term payables			
Special payables			
Other long-term liabilities			
Sub-total of long-term liabilities			
Deferred taxes:			
Deferred tax liabilities			
TOTAL LIABILITIES		66,534,984.06	41,333,508.46
Owners' equity			
Paid-in capital	6.13	73,472,572.94	73,472,572.94
Less: Investments returned			
Surplus reserve	6.14	40,534,884.00	40,534,884.00
Undistributed profit	6.15	271,043,913.72	223,714,478.34
Inc: Profit allocation after the balance sheet date			
Currency exchange differences			
TOTAL OWNERS' EQUITY		385,051,370.66	337,721,935.28
TOTAL LIABILITIES AND OWNERS' EQUITY		451,586,354.72	379,055,443.74

Legal representative: Li Shuwang

Chief Financial Officer: Peng Zhaohui

Chief Accountant: Peng Zhaohui

Profit and Profit Distribution Statement

2019

Company: Shanghai HiTeC Plastics Co., Ltd.

RMB

Item	Note	Current year	Prior year
1. Revenue from principal operations	6.16	477,245,766.94	458,141,240.79
Less: Cost of principal operations	6.16	344,891,454.11	346,036,324.67
Taxes and surcharge		361,204.86	448,185.52
.2. Profit / (loss) from principal operations		131,993,107.97	111,656,730.60
Add: Profit from other operations	6.17	443,985.07	-1,557,170.27
Less: Operating expenses		15,334,479.36	12,414,879.27
General and administrative expenses		14,311,320.36	14,471,969.46
Inc: Entertainment fee		415,201.11	326,004.08
Research and development fee			
Financial expenses	6.18	-3,051,194.40	-5,674,130.41
Inc: Interest expenses			
Interest income		1,787,100.92	674,614.37
Exchange losses/(gains)		-1,801,639.26	-5,476,614.16
3. Operating profit/(loss)		105,842,487.72	88,886,842.01
Add: Investment income/(loss)			
Inc: Investments income in associated companies and joint ventures			
Subsidy income			
Non-operating Income	6.19	352,397.03	715,650.56
Inc: Gains from non-current assets disposal		330,012.75	
Non-monetary assets exchange gains			
Governmental subsidy			
Debt restructuring gains			
Less: Non-operating expenses	6.19	29,472.46	152,550.16
Inc: Losses from non-current assets disposal		22,200.35	146,350.16
Non-monetary assets exchange losses			
Debt restructuring losses			
4. Profit/(loss) before income tax		106,165,412.29	89,449,942.41
Less: Income tax	6.20	26,835,976.91	22,449,311.31
5. Net profit/(loss)		79,329,435.38	67,000,631.10
Add: Undistributed profit at the beginning of the year		223,714,478.34	191,413,910.35
Other transfer-in			
6. Profit to be distributed			
Less: Appropriation of reserve fund			6,700,063.11
Appropriation of enterprise expansion fund			
Appropriation of employee welfare and bonus fund			
Profit capitalised on return of investment		32,000,000.00	28,000,000.00
7. Profit to be distributed to investors		271,043,913.72	223,714,478.34
Less: Distributed profits			
Transfer to paid-in capital			
8. Undistributed profit		271,043,913.72	223,714,478.34
Supplementary information:			
1. Gain on sale and disposal of a business segment or an investee enterprise			
2. Losses arising from natural disasters			
3. Increase/(decrease) in total profit due to [a] change(s) in accounting policy			
4. Increase/(decrease) in total profit due to a change in accounting estimate			
5. Losses arising from debt restructuring			
6. Others			

Legal representative: Li Shuwang

Chief Financial Officer: Peng Zhaohui

Chief Accountant: Peng Zhaohui

Cash Flow Statement

2019

Company: Shanghai HiTeC Plastics Co., Ltd.

RMB

Item	Note	Current year	Prior year
1. Cash flows from operating activities			
Cash received from the sale of goods or rendering of services		516,076,165.66	504,022,016.84
Refunds of taxes		521,277.10	889,891.53
Other cash received relating to operating activities		1,079,247.64	674,614.37
Sub-total of cash inflows		517,676,690.40	505,586,522.74
Cash paid for goods and services		354,796,260.34	357,280,446.60
Cash paid to and on behalf of employees		19,415,185.94	20,259,710.68
Cash paid for all types of taxes		27,197,181.77	30,949,543.40
Other cash paid relating to operating activities		9,814,838.64	28,975,182.16
Sub-total of cash outflows		411,223,466.69	437,464,882.84
Net cash flows from operating activities		106,453,223.71	68,121,639.90
2. Cash flows from investing activities			
Cash received from disposal of investments			
Cash received from return on investments			
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		628,092.55	32,950.00
Other cash received relating to investing activities			
Sub-total of cash inflows		628,092.55	32,950.00
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		12,704,231.01	15,331,376.93
Cash paid for acquisition of investments		20,000,000.00	
Other cash paid relating to investing activities			
Sub-total of cash outflows		32,704,231.01	15,331,376.93
Net cash flows from investing activities		-32,076,138.46	-15,298,426.93
3. Cash flows from financing activities			
Cash received from investors			
Cash received from borrowings			
Other cash received relating to financing activities			
Sub-total of cash inflows			
Cash repayments of borrowings			
Cash paid for dividends, profits distribution or interest expenses		32,000,000.00	28,000,000.00
Other cash paid relating to financing activities			
Sub-total of cash outflows		32,000,000.00	28,000,000.00
Net cash flows from financing activities		-32,000,000.00	-28,000,000.00
4. Effect of foreign exchange rate changes on cash			
		183,764.85	5,476,614.16
5. Net increase in cash and cash equivalents			
		42,560,850.10	30,299,827.13

Legal representative: Li Shuwang

Chief Financial Officer: Peng Zhaohui

Chief Accountant: Peng Zhaohui

Cash Flow Statement (Continued)

2019

Company: Shanghai HiTeC Plastics Co., Ltd.

RMB

Item	Note	Current year	Prior year
Supplementary Information:			
1. Reconciliation of net profit / (loss) to cash flows from operating activities			
Net profit / (loss)		79,329,435.38	67,000,631.10
Add: Provision for impairment of assets			
Depreciation of fixed assets		7,485,514.58	7,637,210.01
Amortisation of intangible assets		211,076.22	211,009.50
Amortisation of long-term deferred expenses			
Decrease / (increase) in prepaid expenses		-767,506.40	79,947.22
Increase / (decrease) in accrued expenses		500,002.47	202,297.99
Losses on disposals of fixed assets		-307,812.40	
Financial expenses		-183,764.85	-5,476,614.16
Losses / (gains) arising from investments			
Deferred tax credit / (debit)			
Decrease / (increase) in gross inventories		7,201,628.57	-12,036,792.15
Decrease / (increase) in gross operating receivables		321,540.77	-2,820,602.97
Increase / (decrease) in operating payables		12,663,109.37	13,324,553.36
Others			
Net cash flows from operating activities		106,453,223.71	68,121,639.90
2. Investing and financing activities not involving cash flows			
Conversion of debt into capital			
Acquisition of fixed assets under finance leases			
3. Net increase in cash and cash equivalents			
Cash at the end of the year		215,462,177.30	172,901,327.20
Less: Cash at the beginning of the year		172,901,327.20	142,601,500.07
Add: Cash equivalents at the end of the year			
Less: Cash equivalents at the beginning of the year			
Net increase / (decrease) in cash and cash equivalents		42,560,850.10	30,299,827.13

Legal representative: LI Shuwang

Chief Financial Officer: Peng Zhaohui

Chief Accountant: Peng Zhaohui

Statement of changes in owners' equity

2019

Company: Shanghai HITEC Plastics Co., Ltd.

RMB

Item	Current year						Total owners' equity	
	Paid-in capital	Capital surplus	Treasury stock	Other comprehensive income	Special reserves	Surplus reserve		Undistributed profits
1. Balance at 31 December 2018	73,472,572.94					40,534,884.00	223,714,478.34	337,721,935.28
Add: Changes in accounting policies								
Corrections of prior period errors								
Others								
2. Balance at 1 January 2019	73,472,572.94					40,534,884.00	223,714,478.34	337,721,935.28
3. Movements for the current period								
(1) Total comprehensive income							47,329,435.38	47,329,435.38
(2) Capital contribution and withdrawal by owners							79,329,435.38	79,329,435.38
1. Capital contribution by owners								
2. Capital contribution by other equity instruments holders								
3. Amount recorded in owners' equity arising from share-based payment arrangements								
4. Others								
(3) Profit distribution							-32,000,000.00	-32,000,000.00
1. Appropriation for surplus reserves								
2. Profit distribution to equity owners								
3. Others								
(4) Transfer within owners' equity								
1. Transfer from capital surplus to paid-in capital								
2. Transfer from surplus reserves to paid-in capital								
3. Surplus reserves used to offset accumulated losses								
4. Changes arising from defined benefit plan transferred to retained earnings								
5. Others								
(5) Special reserves								
1. Appropriation during the year								
2. Utilisation during the year								
(6) Others								
4. Balance at 31 December 2019	73,472,572.94					40,534,884.00	271,043,913.72	385,051,370.66

Legal representative: Li Shuwang

Chief Financial Officer: Peng Zhaohui

Chief Accountant: Peng Zhaohui

Statement of changes in owners' equity
2018

Company: Shanghai HiTec Plastics Co., Ltd.

RMB

Item	Current year							Total owners' equity
	Paid-in capital	Capital surplus	Treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	
1. Balance at 31 December 2017	73,472,572.94					33,834,820.89	191,413,910.35	298,721,304.18
Add: Changes in accounting policies								
Corrections of prior period errors								
Others								
2. Balance at 1 January 2018	73,472,572.94					33,834,820.89	191,413,910.35	298,721,304.18
3. Movements for the current period						6,700,063.11	32,300,567.99	39,000,631.10
(1) Total comprehensive income							67,000,631.10	67,000,631.10
(2) Capital contribution and withdrawal by owners								
1. Capital contribution by owners								
2. Capital contribution by other equity instruments holders								
3. Amount recorded in owners' equity arising from share-based payment arrangements								
4. Others								
(3) Profit distribution						6,700,063.11	-34,700,063.11	-28,000,000.00
1. Appropriation for surplus reserves						6,700,063.11	-6,700,063.11	-
2. Profit distribution to equity owners							-28,000,000.00	-28,000,000.00
3. Others								
(4) Transfer within owners' equity								
1. Transfer from capital surplus to paid-in capital								
2. Transfer from surplus reserves to paid-in capital								
3. Surplus reserves used to offset accumulated losses								
4. Changes arising from defined benefit plan transferred to retained earnings								
5. Others								
(5) Special reserves								
1. Appropriation during the year								
2. Utilisation during the year								
(6) Others								
4. Balance at 31 December 2018	73,472,572.94					40,534,884.00	223,714,478.34	337,721,935.28

Legal representative: LI Shuwang

Chief Financial Officer: Peng Zhaochui

Chief Accountant: Peng Zhaochui

Shanghai HiTeC Plastics Co., Ltd.

Notes to the financial statements for the year 2019

(Unless otherwise stated, the reporting currency stated in this report is Renminbi ("RMB"))

1. COMPANY STATUS

Shanghai HiTeC Plastics Co., Ltd. (the "Company") is a joint venture of Cyprus PK Far East, Shanghai Sanhua Film Factory (later renamed Shanghai New Sanhua Film Co., Ltd.) and Shanghai Light Industry Foreign Economic and Technical Cooperation Co., A foreign-invested enterprise registered in Shanghai on March 29, 2001. The business licence number of the Company is 310000400261111, with a period of operation of 50 years. The registered capital is EUR 10,000,000.00.

In accordance with the gist of the Opinions of the General Office of the State Council on Accelerating the Promotion of the "Three in One" Registration System Reform(No. 50 [2015], General Office of the State Council), the Company obtained the business license with the uniform social credit code No. 91310000607428230D.

The company's approved business scope is the production of multi-functional films, geomembrane, pipes, master batches for agricultural greenhouses and other uses, and sales of the company's own products. (all above business which refer to administrative approval is operated under licenses).

The financial statements have been approved by the legal representative of the Company on February 29, 2020.

2. Basis of preparation

(1) Basis of preparation

The financial statements have been prepared in accordance with the requirements of the Accounting System for Business Enterprises and its Supplementaries. According to the provisions of the "Notice on Printing and Distributing the Questions and Answers on the Implementation of the " Enterprise Accounting System "and Related Accounting Standards (II)" (Cai Cai [2003] No. 10), the Company does not prepare consolidated accounting statements.

(2) Going concern

The company evaluated the company's ability to continue operations for 12 months from the end of the reporting period and found no issues affecting the company's ability to continue operations. It is reasonable for the company to prepare its financial statements on the basis of continuing operations.

3. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

3.1 Accounting policies

The Company's financial statements are in conformity with the Accounting Regulations for Business Enterprises and its Supplementaries.

3.2 Accounting year

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

3.3 Reporting currency

The Company's reporting currency is renminbi ("RMB") and these financial statements are also presented in RMB. Unless otherwise stated, the reporting currency stated in this report is RMB.

3.4 Basis of preparation and measurement basis

The financial statements of the Company have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost. All the assets of the Company are initially measured at actual cost. Subsequently, if there is any asset impairment incurs, the provision is recognized according to the Accounting Regulations for Business Enterprises.

3.5 Translation of foreign currencies

Accounting treatment of foreign currency transactions

Transactions denominated in foreign currencies are translated into RMB at the exchange rate prevailing at the beginning of the month in which the transaction occurs that quoted by the People's Bank of China. The balances of all foreign currency accounts are restated into RMB at the exchange rate prevailing at the end of an accounting period. The difference between the amounts restated into RMB and the amount recorded in RMB are accounted for in the income statement as exchange gains or losses of the period.

Foreign currency capital is translated into RMB at the exchange rate prevailing at the date of transactions/joint capital/contractual exchange rate. Because of the different translation method, the amount difference between the related assets accounts and the paid-in capital account is recorded in capital reserve account.

3.6 Cash equivalents

Cash equivalents represent short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk

of change in value.

3.7 Provision for bad and doubtful debts

The allowance method is adopted to account for bad debts including account receivable and other receivables, the same below. The Company's accounts receivable are accounted with bad debt provision.

(1)Accounts receivable

Including the affiliated party accounts receivable and accounts receivable not affiliated parties.

For accounts receivable from related parties and the recoverability of accounts receivable that are significantly different from other receivables, special bad debt provisions are made by using the individual recognition method.

(2)Other receivables

The company adopts special recognition method for other receivable to make provision for bad debts.

(3)The recognition criteria of provision

The Company carries out an inspection, on the balance sheet day, on the carrying amount of accounts receivable; where there is any objective evidence described below proving that such accounts receivable has been impaired, an impairment provision is made:

- ① The debtor is deceased or has been declared bankrupt and the debts remain uncollectible after considering the assets of the bankrupt or the estate of the deceased debtor;
- ② Debts that are long overdue where there is also evidence indicating that the debts are uncollectible or the possibility of collection is remote.

3.8 Inventory

Inventories include raw materials, packing items and finished goods and etc. The inventories are initially measured at cost. The cost of inventories issued is determined on the weighted average basis. The cost of inventories issued is determined on the standard cost basis. At period end, the cost variances of standard cost are adjusted in using the cost variance ratio to actual cost.

Inventories are valued at the lower of cost and net realizable value at the balance sheet date. The difference between the cost and the lower net realizable value is stated as a provision. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and estimated

expenses and related taxes necessary to make the sale. The net realizable value is determined based on market prices.

The provision for finished goods is determined on an individual item basis.

3.9 Long-term equity investment

Long-term equity investments include the Company's equity investments in subsidiaries, joint ventures and associates, and other equity investments that are intended to be held for more than one year.

A subsidiary is a company that directly or indirectly owns more than 50% of its voting capital, or other investees that the company has the right to determine its financial and operating policies and can obtain benefits from its operating activities; a joint venture refers to The invested unit that the company and other joint ventures can jointly control; an affiliated enterprise refers to an invested unit in which the company accounts for 20% or more to 50% of the total voting capital of the enterprise, or has significant influence on the financial and operating decisions of the enterprise.

The cost of a long-term equity investment is recorded at the actual payment paid at the time of deduction of cash dividends declared but not yet received. The Company uses the equity method to account for long-term equity investments in subsidiaries, joint ventures and associates; other equity investments that are to be held for more than one year are accounted for using the cost method.

When the equity method is used for accounting, investment gains and losses are recognized based on the share of the net profit realized or the net loss incurred by the investee enterprise that should be enjoyed or shared in the current year, and the book value of the long-term equity investment is adjusted to confirm the net loss incurred by the investee company. The carrying value of long-term equity investments is reduced to zero. The cash dividend distributed by the invested unit will reduce the book value of the long-term equity investment accordingly when the dividend is declared. When using the cost method, investment income is recognized when the investee declares dividend distribution.

3.10 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; have useful life more than one year; and have relatively high unit price.

Fixed assets are initially recorded at their cost. Depreciation is provided monthly using the straight-line method. The estimated residual value rate, useful life and

annual depreciation rate of each category of fixed assets are as follows:

Category	Estimate Useful life (Year)	Estimate Residual value rate (%)	Annual Depreciation rate (%)
Buildings	20	0	5
Machinery	10	0-10	9-10
Transportation equipment	5	0-10	18-20
Other equipments	5	0-10	18-20

The Company examined its fixed assets at the end of an accounting period. If the recoverable amount of a fixed asset is lower than its carrying amount, the Company will make a provision for impairment of fixed asset at an amount equal to the difference between the asset's recoverable amount and its carrying amount. The recoverable amount is the higher between net sales value and use value. Use value is the expect present value of the estimated future cash flow caused by sustained use of assets and useful life finished deposed.

Gains or losses arising from the disposal, damage, obsolescence or physical counting of fixed assets are accounted for as non-operating expenses or income in the current year.

3.11 Construction in progress

Construction in progress is stated according to actual expenditure before it has reached the expected usable condition for its intended use. The cost includes project direct material, direct wages, equipment pending for installation, installation fee, management fee, net profit/loss arises from trial run process and capitalised borrowing costs. Construction in progress is transferred to fixed assets when it has reached the expected usable condition.

At period end, the Company deploys detailed examination on ongoing projects, and provision for impairment for those long-term projects which are presumed to remain suspended in the next three years; or for those ongoing projects that are outdated functionally and technologically and related future economic benefits to bring in for the Company are uncertain.

3.12 Profit Distribution

The cash dividends approved by the board of directors are recognized as liabilities at the time of approval.

3.13 Intangible assets

Intangible assets include Land use rights and software and etc.

Intangible assets are recorded at the actual cost of acquisition. Since January 1, 2002 from the use of land to build their own use of the project, the relevant land use rights of the book value of all transferred to construction accounting. The cost of an intangible asset is amortised using the straight-line method starting from the month in which the asset is acquired and over the shortest period of the estimated useful life, the beneficial period as stipulated by the contracts or the effective period stipulated by laws/[no longer than 10 years]. Evenly over the following periods:

Categories	Amortization period (year)
Land use rights	50
Software	5

Intangible assets are stated at the lower of their book value or their recoverable amounts. If the recoverable amount is lower than the book value, a provision of impairment of intangible assets is made for the resultant difference.

3.14 Revenue recognition

(1) Revenue from sale of goods

Revenue is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the economic benefits associated with the transaction will flow to the Company, and the relevant amount of revenue and costs can be measured reliably.

(2) Revenue from rendering of services

When the provision of services is started and completed within the same accounting year, revenue is recognised at the time of completion of the services. When the provision of services is started and completed in different accounting years and the outcome of a transaction involving the rendering of services can be estimated reliably. Revenue is recognised at the balance sheet date by the use of the percentage of completion method. Revenue is otherwise, recognised at the balance sheet date only to the extent of the costs incurred that are expected to be recoverable and charge an equivalent amount of cost to the profit and loss account. When the costs incurred are not expected to be recovered, revenue is not recognised and the costs incurred are recognised as an expense in the current period.

(3) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

3.15 Employees social security and welfare

Employees participate in the social security system that managed by government agencies, including pension and medical insurance, housing accumulation fund and other social security systems. In addition, the company has no other major employee welfare commitments.

According to the relevant regulation, the company draws insurance premiums and provident fund on the basis of a certain proportion of the total wages and not exceeding the prescribed ceiling, and pays them to labor and social security institutions. The corresponding expenditures are included in current costs or expenses. The ratio of insurance premium and provident fund is as follows:

	Accrued Proportion(%)
Pension	16
Housing Fund	7
Medical Insurance	9.5
Unemployment Insurance	0.5
Employment Injury	0.576
Meternity Insurance	1

3.16 Income tax

Income tax is accounted for using the tax payable method, whereby the income tax provision is calculated based on the applicable income tax rate and the accounting results for the year after adjusting for items which are non-assessable or disallowed in accordance with the relevant tax laws.

3.17 Related parties

If a party has the power to directly or indirectly control, jointly control or exercise significant influence over another party, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control from the same party.

4. CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF ACCOUNTING ERRORS

4.1 Changes in accounting policies, accounting estimates

4.1.1 Changes in accounting policies

There is no accounting policy change in current year.

4.1.2 Accounting estimates

There is no accounting estimates change in current year.

4.2 Correction of accounting errors

There is no Correction of accounting errors in current year.

5. PRINCIPAL TAXATION

The major categories of taxes applicable to the Company and the respective tax rates

Categories of taxes	Tax basis and applicable rate
Value added tax ("VAT")	Taxable income is calculated at the tax rate of 13% and 9%, and the VAT is calculated based on the difference after deducting the input tax allowable in the current period.
Urban maintenance and construction tax	5% of net turnover taxes.
Education surcharges	3% of net turnover taxes.
Urban education surcharges	2% of net turnover taxes.
Income taxes	25% of taxable income.

The original 16% and 11% tax rate is applicable to the taxable sales of VAT or imported goods. According to the Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment of VAT Tax Rate (Finance and Tax [2019] 39), the applicable tax rate has been adjusted to 13% and 9% since April 1, 2019.

6. NOTES TO THE FINANCIAL STATEMENTS

Unless otherwise defined, the opening balance refers to the balance as at 1 January 2019; the closing balance refers to the balance as at 31 December 2019.

6.1 Cash at bank and on hand

Items	Closing balance	Opening balance
Cash on hand	37,609.93	45,217.92
Cash at bank	63,567,367.37	75,049,549.28
Other Monetary Funds	151,857,200.00	97,806,560.00
Total	215,462,177.30	172,901,327.20

Cash balance shown in the cash flow statement:

31 December 2019

Cash and bank	215,462,177.30
31 December 2019 cash balance	215,462,177.30

6.2 Notes receivable

Items	Closing balance	Opening balance
Bank acceptance bill	9,200,000.00	11,900,000.00

6.3 Accounts receivable

Nature of accounts

Items	Closing balance	Opening balance
Related parties (Note 7.3(5))	191,565.72	1,253,290.65
Non-related parties	22,260,528.27	21,456,772.99
Less: provision for bad debts		
Total	22,452,093.99	22,710,063.64

Notes: The ageing for accounts receivable balance are within one year.

6.4 Other receivables

(1) Nature of accounts

Items	Closing Balance	Opening Balance
Input VAT pending for VAT invoice verification	1,287,833.91	225,520.36
Deposit	174,125.00	1,610,825.00
Employee reserve fund	125,505.09	97,413.15
Others	144,744.00	181,733.62
Total	1,732,208.00	2,115,492.13

(2) Aging analysis of other receivables:

Ageing	Closing Balance			Opening Balance		
	Amount	Proportion to total (%)	Provision for bad debts	Amount	Proportion to total (%)	Provision for bad debts
Within 1 year	1,571,583.00	90.72		1,828,367.13	86.43	
1-2 years	1,000.00	0.06				
2-3 years						
Over 3 years	159,625.00	9.22		287,125.00	13.57	
Total	1,732,208.00	100.00		2,115,492.13	100.00	

Note: The balances with ageing over one year are deposits.

6.5 Inventory

Inventory classification

Item	Closing Balance	Opening Balance
Raw materials	54,815,811.49	70,283,770.58
Finished Goods	11,930,237.69	17,711,149.88
Packing items	909,499.37	1,090,340.51
Low-value consumables	2,523,762.66	2,390,299.14
Consigned processing materials	1,279,502.74	1,470,318.67
Goods In transit	14,285,436.26	
Subtotal	85,744,250.21	92,945,878.78
Minus: Inventory Provision		
Total	85,744,250.21	92,945,878.78

6.6 Other current assets

Item	Closing Balance	Opening Balance
VAT to be deducted	4,664,081.36	6,482,801.51

6.7 Long-term equity investment

(1) Classification

Items	Opening balance	Increase	Decrease	Closing balance
1、Equity Investment				
(1) Investment in subsidiaries (equity method)				
Investment cost		20,000,000.00		20,000,000.00
Subtotal		20,000,000.00		20,000,000.00

Note: Anhui HiTeC Plastics Co., Ltd. is in the start-up period, so there is no profit or loss.

(2) Equity investment details

Investee	Accounting Method	Initial investment cost	Opening balance	Movement	Closing balance
Anhui HiTeC Plastics Co., Ltd.	Equity method	20,000,000.00		20,000,000.00	20,000,000.00

(Continue)

Investee	Shareholding ratio in the invested unit (%)	Proportion of voting rights (%)	Reason for inconsistency	Current Provision	Impairment at year-end	Current cash dividend
Anhui HiTeC Plastics Co., Ltd.	100	100				

6.8 Fixed assets

Fixed asset cost and accumulated depreciation

Items	Opening balance	Increase	Decrease	Closing balance
1. Original cost	142,786,820.50	2,873,383.67	1,288,904.96	144,371,299.21
Building	21,705,645.07			21,705,645.07
Transportation equipment	3,471,035.98	306,160.11	355,149.60	3,422,046.49
Machinery	113,331,336.99	2,374,475.00	930,915.36	114,774,896.63
Other equipments	4,278,802.46	192,748.56	2,840.00	4,468,711.02
2. Accumulated depreciation	98,316,172.43	7,485,514.58	968,624.81	104,833,062.20
Building	13,757,581.92	976,217.76		14,733,799.68
Transportation equipment	3,105,027.37	91,340.51	342,234.64	2,854,133.24
Machinery	77,626,346.31	6,300,843.59	623,834.17	83,303,355.73
Other equipments	3,827,216.83	117,112.72	2,556.00	3,941,773.55
3. Net book value	44,470,648.07			39,538,237.01
Building	7,948,063.15			6,971,845.39
Transportation equipment	366,008.61			567,913.25
Machinery	35,704,990.68			31,471,540.90
Other equipments	451,585.63			526,937.47

As of December 31, 2019, the original book value of fixed assets that have been fully depreciated and still in use during the year is RMB 65,423,812.69, and the accumulated depreciation is RMB 59,096,242.64.

6.9 Construction in progress

(1) Nature of accounts

Items	Closing balance			Opening balance		
	Ending balance	Impairment	Net value	Ending balance	Impairment	Net value
Building	38,600,345.40		38,600,345.40	16,731,134.29		16,731,134.29

(2) Changes in major construction projects

Projects	Opening balance	Increase	Transfer out	Decrease	Closing balance
Warehouse	16,420,983.05	21,774,719.27			38,195,702.32
Workshop	310,151.24	94,491.84			404,643.08
Total	16,731,134.29	24,243,686.11			38,600,345.40

6.10 Intangible assets

Items	Opening balance	Increase	Decrease	Closing balance
1. Original costs	7,032,458.29			7,032,458.29
Software	1,316,283.77			1,316,283.77
Land use rights	5,716,174.52			5,716,174.52
2. Accumulated Amortization	2,865,718.31	211,076.22		3,076,794.53
Software	989,899.25	91,722.54		1,081,621.79
Land use rights	1,875,819.06	119,353.68		1,995,172.74
3. Net of Intangible assets	4,166,739.98			3,955,663.76
Software	326,384.52			234,661.98
Land use rights	3,840,355.46			3,721,001.78

6.11 Accounts payable

Nature of accounts

Item	Closing balance	Opening balance
Related party (Note 7.3(5))	6,362,251.42	324,563.95
Third party	27,045,807.54	24,897,052.76
Total	33,408,058.96	25,221,616.71

Note: The ageing for accounts payable balance are within one year.

6.12 Taxes payable

Items	Closing balance	Opening balance
Enterprise income tax	13,692,908.85	12,272,819.95

6.13 Paid-in capital

Investors	Closing balance		Opening balance	
	Shareholding Ratio (%)	Amount of contribution	Shareholding Ratio (%)	Amount of contribution
PLASTIKA KRITIS FAR EAST LTD	75.00	55,119,325.91	75.00	55,119,325.91
Shanghai New San Hua Film Co., Ltd.	20.00	14,729,977.86	20.00	14,729,977.86
Shanghai Light Industry Co., Ltd For Foreign Economic & Technical Co-operation.	5.00	3,623,269.17	5.00	3,623,269.17
Total	100.00	73,472,572.94	100.00	73,472,572.94

Note: The above paid-in capital has been verified by Shanghai Jinglong Certified Public Accountants, and the capital verification report [2002] No. 602 has been issued.

6.14 Surplus reserve

Items	Closing balance	Opening balance
Reserve fund	40,534,884.00	40,534,884.00

6.15 Undistributed profit

Items	Amounts
Opening balance	223,714,478.34
Increase	79,329,435.38
Include: Net profit for the year	79,329,435.38
Decrease	32,000,000.00
Include: Dividend paid	32,000,000.00
Closing balance	271,043,913.72

Note: In accordance with the Article of Association, the Company made appropriations to the reserve fund based on 10% of the net profit of the year. In addition, if the reserve fund reach 50% of registered capital, the Company can choose not to accrue reserve fund afterwards.

6.16 Revenue and cost from main operations

Items	Revenue		Cost	
	Current year	Prior year	Current year	Prior year
Revenue from sale of goods	477,245,766.94	458,141,240.79	344,891,454.11	346,036,324.67

6.17 Profit from other operations

Items	Other operating income		Other operating expense		Other operating profit	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Scrap Sale	5,537,108.49	8,752,113.07	5,230,429.63	10,316,372.12	306,678.86	-1,564,259.05
Others	462,964.24	20,746.78	325,658.03	13,658.00	137,306.21	7,088.78
Total	6,000,072.73	8,772,859.85	5,556,087.66	10,330,030.12	443,985.07	-1,557,170.27

6.18 Financial expenses

Items	Current year	Prior year
Interest expenses		
Less: interest income	1,787,100.92	674,614.37
Bank charge	537,545.78	477,098.12
Exchange gains and losses	-1,801,639.26	-5,476,614.16
Total	-3,051,194.40	-5,674,130.41

6.19 Non-operating (income)/expenses

Principal items	Current year	Prior year
Non-operating income:		
Government subsidy		694,600.00
Gains from disposal of non-current assets	330,012.75	
Others	22,384.28	21,050.56
Total	352,397.03	715,650.56
Non-operating expenses:		
Losses from disposal of non-current assets	22,200.35	146,350.16
Others	7,272.11	6,200.00
Total	29,472.46	152,550.16

6.20 Income tax

Items	Current year	Prior year
Current income tax	26,835,976.91	22,449,311.31

7. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

7.1 Related parties with controlling relationships

Name	Place of registration	Business nature	Relationship
PLASTIKA FRITIS FAR EAST LTD	Republic of Cyprus	Masterbatches and agricultural films	Parent company

The Company's ultimate holding company is PLASTIKA KRITIS S.A. registered in Greece.

7.2. Major related parties with business transactions

Name of Related Party	Relationship with the Company
RAINBOW TECHNOLOGIES LTD	Controlled by the same ultimate holding company
SENKROMA A.S.	Controlled by the same ultimate holding company
Romcolor 2000 SA	Controlled by the same ultimate holding company
AGRIPOLYANE S.A.S.U.	Controlled by the same ultimate holding company

7.3. Significant transactions between the Company and its related parties during the year

(1) Purchases

Name	Transaction activities	Current year	Prior year
PLASTIKA KRITIS S.A.	Purchase	45,232,945.10	37,671,122.51
Romcolor 2000 SA	Purchase	383,319.55	5,751,029.99
SENKROMA A.S.	Purchase	1,277,746.65	3,556.32
AGRIPOLYANE S.A.S.U.	Purchase	519,154.35	
Total		47,413,165.65	43,425,708.82

(2) Sales

Name	Transaction activities	Current year	Prior year
PLASTIKA KRITIS S.A.	Sale of goods	2,652,297.93	1,869,032.36
PLASTIKA KRITIS S.A.	Sale of fixed assets	833,007.40	
Total		3,485,305.33	1,869,032.36

(3) Accepting services

Name	Transaction activities	Current year	Prior year
PLASTIKA KRITIS S.A.	Service fees	559,173.68	609,862.42
RAINBOW TECHNOLOGIES LTD	Royalties	2,478,378.00	2,378,295.00
Total		3,037,551.68	2,988,157.42

(4) Dividends

Name	Transaction activities	Current year	Prior year
PLASTIKA KRITIS S.A.	Dividends paid	24,000,000.00	21,000,000.00

(5) Amounts due to/from related parties

Name	Closing balance	Opening balance
Accounts receivable: (Notes 6.3)		
PLASTIKA KRITIS S.A.	191,565.72	1,253,290.65
Total	191,565.72	1,253,290.65
Accounts payable: (Notes 6.11)		
PLASTIKA KRITIS S.A.	5,288,175.24	322,752.07
SENKROMA A.S	554,921.83	1,811.88
AGRIPOLYANE S.A.S.U.	519,154.35	
Total	6,362,251.42	324,563.95

8. Commitments

(1) Capital commitments

The following are capital expenditure commitments that have been signed but not yet recognized in the financial statements at the balance sheet date:

Item	Closing Balance	Opening Balance
Warehouse and Workshop	22,715,495.30	39,781,485.90

(2) Lease commitments

According to the irrevocable operating lease contract signed, the minimum rent payable in the future is summarized as follows:

Item	Closing Balance	Opening Balance
Within 1 year	5,578,095.54	3,872,376.80
1-2 years	2,141,139.00	2,948,538.00
2-3 years		2,141,139.00
Total	7,719,234.54	8,962,053.80

9. Contingencies

As at 31 December 2019, there are no material contingent liabilities which need disclosure.

10. POST BALANCE SHEET EVENTS

As at the approval date of the financial statements, there are no post balance sheet events incurred which need disclosure.

11. OTHER SIGNIFICANT ISSUES

As at 31 December 2019, the Company has no other significant events which need disclosure.