

Risk Assessment Report
For Sinochem Finance Corporation Ltd.
As of June 30, 2023
TZYZ [2023] No. 41353



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To Sinochem Finance Corporation Ltd.,

We have been engaged to audit the risk management design of Sinochem Finance Corporation Ltd. (referred to as “Sinochem Finance”) as of June 30, 2023, in relation to the financial statements and to evaluate and determine the reasonableness of such design and the effectiveness of its implementation. It is the responsibility of the management of Sinochem Finance to establish sound and properly designed risk management and to maintain its effectiveness, as well as the truthfulness and integrity of the risk management policies and procedures. We are responsible for expressing an opinion on Sinochem Finance’s risk management implementation with respect to the financial statements.

In the course of our audit, we have obtained an understanding of, tested and evaluated the reasonableness and implementation of the risk management design of Sinochem Finance in relation to the preparation of its financial statements, and have conducted such other procedures as necessary. We believe that our audit provides a reasonable basis for our opinion.

Risk management has inherent limitations with the possibility of misstatements arising and remaining undetected due to error or fraud. In addition, changes in circumstances may cause risk management to become inappropriate or lead to a reduction in the extent to which controls, risk management policies, and procedures are followed, so it is somewhat risky to speculate on the effectiveness of future risk management based on the results of the risk assessment. Based on our understanding and evaluation of its risk management, we have not identified any material weakness in Sinochem Finance’s risk management in relation to the preparation of its financial statements as of June 30, 2023.

This report is only issued to Sinochem Finance for external disclosure by the listed companies that are member companies. Without written permission, this report may not be used for any other purpose.

Beijing, China
July 18, 2023

Chinese Certified
Public Accountant:

Chinese Certified
Public Accountant:

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Notes to Risk Assessment of Sinochem Finance Corporation Ltd.

I. Company Profile

Sinochem Finance Corporation Ltd. (referred to as the “Company” or “Sinochem Finance”) is a limited liability company approved by the China Banking and Insurance Regulatory Commission (referred to as “CBIRC”) and established in Beijing with the capital contribution from Sinochem Group Co., Ltd. (referred to as “Sinochem Group”). The Company’s uniform social credit code certificate number is 911100007109354688, its registered capital is RMB 6 billion, its legal representative is Li Fuli, and its registered address is F3, Central Tower, Chemsunny World Trade Center, No. 28 Fuxingmennei Avenue, Xicheng District, Beijing.

The current ownership structure of the Company:

Names of Shareholders	Ownership Percentage (%)	Subscribed Capital (ten thousand Yuan)
Sinochem Holdings Corporation Ltd.	37.00	222,000.00
Sinochem Corporation	35.00	210,000.00
Sinochem Capital Co., Ltd.	28.00	168,000.00
<u>Total</u>	<u>100.00</u>	<u>600,000.00</u>

The parent company and the ultimate controlling party of Sinochem Finance: Sinochem Holdings Corporation Ltd.

The structure of Sinochem Finance: the general manager responsibility system under the leadership of the board of directors.

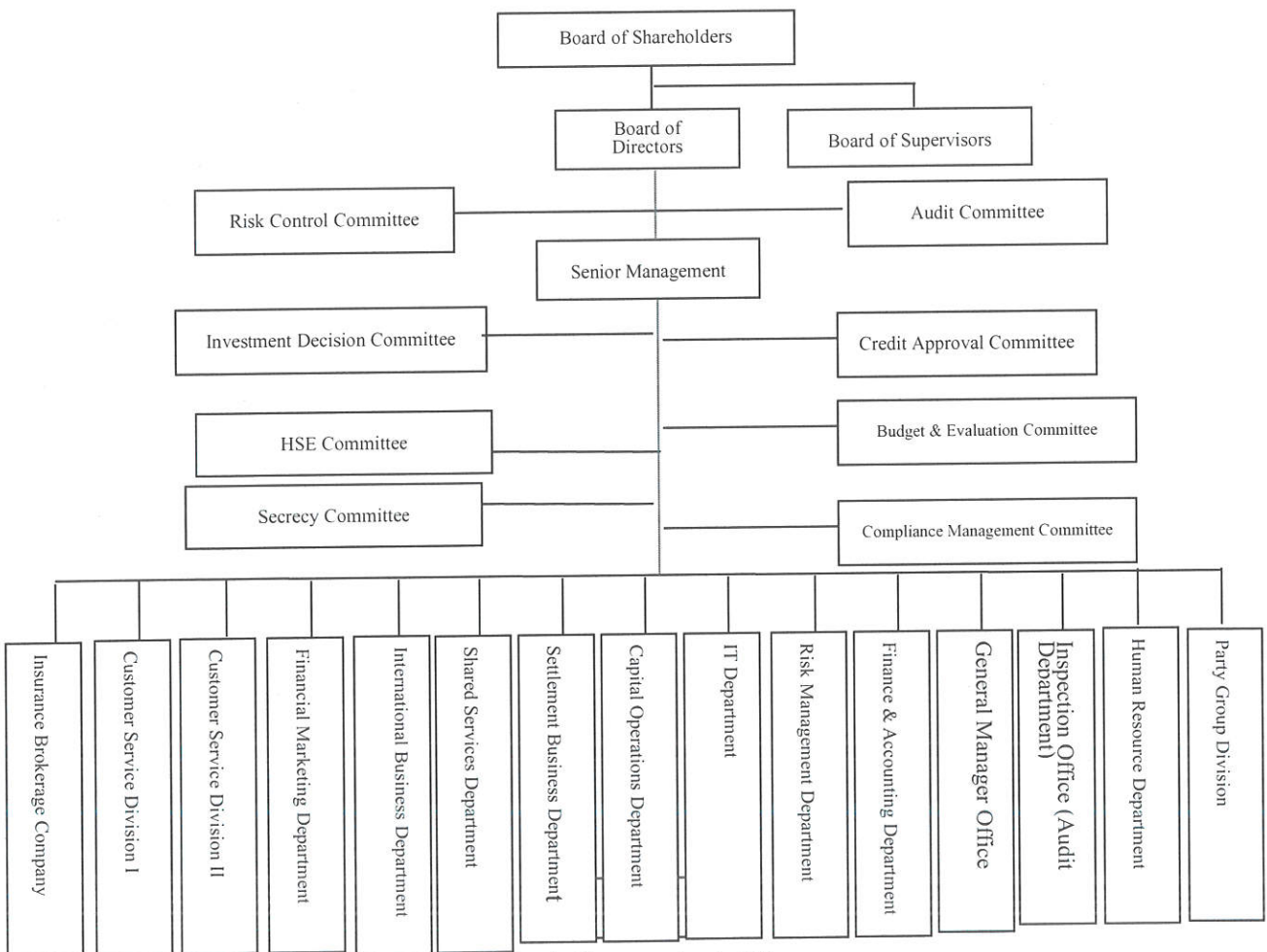
Business scope: (a) providing financial and financing consultancy, credit authentication and related consulting and agency business for member units; (b) assisting member units in collecting and paying for transactions; (c) providing approved insurance agency business; (d) providing guarantees for member units; (e) dealing with entrusted loans and entrusted investments among member units; (f) accepting and discounting bills for member units; (g) handling internal transfers and settlements among member units and designing relevant settlement and clearing plans; (h) absorbing deposits from member units; (i) handling loans and financial leasing for member units; (j) engaging in inter-bank lending; underwriting corporate bonds of member units; (k) issuing bonds of the finance company upon approval; (l) equity investment in financial institutions; (m) investment in securities; (n) buyer’s credit for products of member units.

II. Basic Information of the Company’s Internal Control

(i) Control environment

Sinochem Finance has established a modern corporate governance structure with the separation of powers among the Board of Shareholders, the Board of Directors and the Board of Supervisors according to the *Articles of Association of Sinochem Finance Corporation Ltd.* and has defined the responsibilities of the Board of Directors, the directors, the supervisors and the senior management in internal control. The Board of Shareholders is the highest decision maker of Sinochem Finance. The Board of Directors makes decisions on matters of significance to Sinochem Finance and is accountable to the Board of Shareholders. The management, headed by the general manager, is responsible for the daily operations of Sinochem Finance. The Company has a sound corporate governance structure and standardized management operations, and has established an organizational structure with a reasonable division of labor, well-defined responsibilities and clear reporting relationships, which provides the necessary prerequisites for the effectiveness of risk management.

The organizational chart of the Company:



Note: Insurance brokerage company is a wholly owned subsidiary.

(ii) Risk identification and assessment

Sinochem Finance has formulated a series of internal control systems and management methods and operation procedures for each business, and has established the Risk Management Department and the Inspection Office (Audit Department), which perform all-around risk management, supervision and auditing of the Company's business activities. In line with the characteristics of different businesses, Sinochem Finance has set up corresponding risk control systems, operational procedures and risk prevention measures. Each department has separated responsibilities and exercises mutual supervision to effectively predict, evaluate and control various risks.

(iii) Control activities

1. Capital management

Sinochem Finance's strict capital management is based on the principles of safety, liquidity, and efficiency. Under the premise of capital security, the Company gives priority to meeting settlement and payment needs, which is followed by asset allocation.

In terms of capital planning, Sinochem Finance sets the Capital Operations Department to implement a lean plan for capital management, which enables comprehensive planning, overall coordination and integrated arrangement of revenue and expenditure. Each department prepares weekly, monthly and annual capital plans according to the requirements, and the Capital Operations Department balances the capital needs in a centralized manner. In terms of capital use, the Company firstly meets the settlement needs of its member units, secondly considers the planned capital needs, and finally considers the unplanned capital needs. Sinochem Finance analyzes and summarizes the implementation of the capital plans and the main problems on a weekly, monthly and annual basis, intending to continuously improve and refine the use of capital.

In terms of inter-bank deposits, Sinochem Finance makes inter-bank deposit arrangements for its surplus capital according to its capital plan and after satisfying its settlement and payment needs and other capital use requirements. Sinochem Finance requests quotations from various banks in line with the capital plan and selects banks to work with based on the principle of safety first and profitability second. Sinochem Finance has established strict approval procedures. After the relevant departments sign and confirm the inter-bank business application, Sinochem Finance's vice president and the general manager need to review and approve the application. Sinochem Finance has dedicated personnel to communicate, check and confirm with the bank throughout the entire process of operation and payment at maturity, thus ensuring capital security.

In terms of the deposits of member units, Sinochem Finance strictly follows the principles of equality, voluntariness, fairness and good faith to protect the ownership, use rights and benefits of the deposits enjoyed by member units, and effectively ensures the safety of the deposits of member units in accordance with the relevant requirements of the PBOC.

In terms of inter-bank lending, Sinochem Finance has established an organizational system for inter-bank lending business, in which the Capital Operations Department is responsible for the specific operations of inter-bank lending business, the Settlement Business Department is responsible for clearing, the Risk Management Department is responsible for risk review, the Finance & Accounting Department is responsible for the bookkeeping of inter-bank lending business, and the head in charge of the Capital Operations Department is responsible for final approval, thus effectively preventing the risk of inter-bank lending.

2. Control of credit business

Sinochem Finance focuses its internal control of credit business on preventing and controlling credit risks, improving the quality of credit assets and optimizing the structure of credit assets. Sinochem Finance has formulated such systems as the *Measures for the Management of Credit Ratings of Non-financial Institution Corporate Clients of Sinochem Finance Corporation Ltd.*, the *Measures for the Management of Credit Facilities for Non-financial Institution Corporate Clients of Sinochem Finance Corporation Ltd.*, the *Measures for the Management of Working Capital Loans of Sinochem Finance Corporation Ltd.*, the *Measures for the Management of Fixed Asset Loans of Sinochem Finance Corporation Ltd.*, the *Measures for the Management of Syndicated Loans of Sinochem Finance Corporation Ltd.*, the *Measures for the Management of Electronic Commercial Drafts of Sinochem Finance Corporation Ltd.*, the *Measures for the Management of Bill Discounting of Sinochem Finance Corporation Ltd.*, the *Measures for the Management of Commercial Bill Acceptance of Sinochem Finance Corporation Ltd.*, the *Measures for the Management of Entrusted Loans of Sinochem Finance Corporation Ltd.* and the *Measures for the Management of Guarantee Business of Sinochem Finance Corporation Ltd.*, so as to ensure the standardized operations of credit business.

Currently, Sinochem Finance adopts the credit business system based on “credit rating + comprehensive credit line + interest rate risk pricing”. Credit rating is a prerequisite for credit line approval and interest rate risk pricing, and an important basis for classifying member units into client categories. Interest rate risk pricing is the specific implementation of credit policy and the basic application of credit rating results. Combining the characteristics of the finance company and referring to the interest rate pricing model of commercial banks, Sinochem Finance ensures that interest rate management and credit granting management are consistent with the credit ratings, taking into account the management requirements of capital security, liquidity and profitability.

In principle, any member unit that involves in credit business with Sinochem Finance must first have its comprehensive credit line approved by Sinochem Finance in accordance with the *Measures for the Management of Credit Ratings of Non-financial Institution Corporate Clients of Sinochem Finance Corporation Ltd.* and the *Measures for the Management of Credit Facilities for Non-financial Institution Corporate Clients of Sinochem Finance Corporation Ltd.*. Upon review by

Sinochem Finance's Credit Approval Committee, the comprehensive credit line is submitted to the general manager for approval. The Credit Approval Committee is responsible for considering and approving credit facilities within the authority of the general manager and is accountable to the general manager. The credit facilities that exceed the scope of authority of the general manager are submitted to the Risk Control Committee of the Board of Directors for consideration and approval after review by the Credit Approval Committee. The Customer Service Division is responsible for the acceptance and investigation of credit facilities, carrying out pre-loan due diligence, examining the authenticity of credit application materials, and writing investigation reports. The Risk Management Department is responsible for credit review and risk evaluation, and makes objective assessments of the risks, the reasonableness and the compliance of credit facilities. Depending on the assets scale, production and operation status, financial status, creditworthiness, solvency and development prospects of the member units, Sinochem Finance approves their comprehensive credit lines scientifically and strictly.

(1) Loan business

Sinochem Finance strictly implements the loan system by separating loan granting and review, reviewing at different levels, and approvals by the Company's general manager. The loan business is managed by the Customer Service Division, reviewed and supervised by the Risk Management Department, and approved by the Credit Approval Committee, with the general manager exercising the final veto power. In making decisions, the Credit Approval Committee follows the principles of collective deliberation, voting and majority approval, and all opinions are recorded and filed.

Sinochem Finance clearly specifies the responsibilities of each department and position, and strictly follows the procedures and standards of pre-loan investigation, mid-loan review and post-loan inspection. For pre-loan investigation, Sinochem Finance makes every effort to conduct field research, obtains the operating conditions of member units from multiple channels, and writes loan reports in an objective and honest manner; for mid-loan review, Sinochem Finance conducts independent audits, objectively reveals business risks, and scientifically and reasonably evaluates business feasibility; for post-loan inspection, Sinochem Finance keeps truthful records, fully and timely reveals problems, and never conceals or covers up problems, so that risks can be detected and dealt with as early as possible.

(2) Bill discounting

Sinochem Finance is qualified to provide bill discounting service for Sinochem Group's member units. Sinochem Finance implements business operations in strict accordance with the *Measures for the Management of Bill Discounting of Sinochem Finance Corporation Ltd.*, and sets up clear procedures for business application, review, approval, releasing, collection and file keeping. The Risk Management Department is responsible for monitoring the whole process to effectively prevent risks.

(3) Bill acceptance

Sinochem Finance conducts bill acceptance business in strict accordance with the procedures stipulated in the *Measures for the Management of Commercial Bill Acceptance of Sinochem Finance Corporation Ltd.*. When the conditions of acceptance are met, the Customer Service Division reviews the business and submits it to the Risk Management Department, and the deputy general manager in charge of credit business and the general manager of the Company approve by signature before issuing the acceptance bills. After the commercial bills are accepted, the Customer Service Division carries out supervision and inspection in accordance with the relevant provisions of the *Guideline for Post-Loan Inspection of Sinochem Finance Corporation Ltd.*, to ensure the controlled risks of the bill acceptance business.

(4) Guarantee business

Sinochem Finance carries out the guarantee business in accordance with the principles of “legal compliance, transaction truthfulness, risk prevention and secured profitability”, incorporates the guarantee business into credit management and implements total quota control. After being reviewed by the Customer Service Center, the guarantee applications are submitted to the Risk Management Department, and the deputy general manager in charge of credit business and the general manager of the Company approve the guarantee applications by signature before guarantee procedures. The Customer Service Center is responsible for follow-up inspection of the guarantee business, and communicates with the Risk Management Department on time for effective prevention and resolution of risks if matters that may affect the performance of the contract or the repayment of debts by the guaranteed party are found.

3. Control of entrusted loan business

The entrusted loan business is an intermediary business of Sinochem Finance, for which Sinochem Finance only charges a handling fee and does not assume any kind of risk for the loan.

Entrusted loans are predicated on entrusted deposits. Sinochem Finance lends money based on the principal and the interests received from the clients, and does not advance funds. The total amount of entrusted loans cannot exceed the total amount of entrusted deposits. Sinochem Finance focuses on examining the source of entrusted funds, the purpose of borrowing, and whether the interest rate and maturity of entrusted loans comply with the national policies, and approves them in strict accordance with internal procedures.

4. Control of securities investment business

Sinochem Finance carries out the securities investment business, and sets up scientific control nodes for relevant departments or positions involved in securities investment according to the principle of “duty separation, mutual checks and balances”, so that the duties for decision-making, operation, risk control, accounting and audit management are independent and effectively controlled,

thus preventing the business risks. At any point of time, the capital invested by Sinochem Finance cannot be higher than 70% of the net capital.

Sinochem Finance conducts the investment business in line with the business scope and business varieties stipulated by the CBIRC, and gives approval in strict accordance with internal procedures. In order to ensure timely transmission of risk information, the Financial Market Department has established a regular reporting system for securities investment, so that the leaders of the finance company, the members of the Investment Committee and the Risk Management Department can effectively keep abreast of the progress of the investment business in all aspects. The Risk Management Department has established a regular risk monitoring and reporting system that allows risk management personnel to track the risks of investment projects and provide risk warnings and alerts.

5. Control of settlement business

Sinochem Finance has formulated the *Measures for the Management of Settlement Business of Sinochem Finance Corporation Ltd.* and other systems to determine the authority of different positions in the settlement business according to the management level, business type, amount size, and risk level, etc. Sinochem Finance implements various internal control measures by following the principles of unified management, level-based authorization, clear responsibility, and strict supervision, so as to ensure that the settlement business personnel operate in strict accordance with the operation procedures and prohibit the operations beyond their authority and positions, thus ensuring the safety of the settlement business and the safety of settlement funds.

6. Control of foreign exchange settlement and sale business

Sinochem Finance's foreign exchange settlement and sale business consist of the settlement and sale of foreign exchange on behalf of clients and its own settlement and sale of foreign exchange. The Company has established the *Measures for the Management of Spot Foreign Exchange Settlement and Sale of Sinochem Finance Corporation Ltd.*, the *Measures for the Management of Forward Foreign Exchange Settlement and Sale Agency of Sinochem Finance Corporation Ltd.* and the *Procedures for the Management of Spot Foreign Exchange Settlement and Sale of Sinochem Finance Corporation Ltd.* to standardize the daily operations of the foreign exchange settlement and sale business.

In dealing with foreign exchange settlement and sale business, Sinochem Finance strictly follows the principle of separation among the front-end, middle-end and back-end positions. The International Business Department is responsible for the pricing and related business procedures of the foreign exchange settlement and sale business. The Settlement Business Department is responsible for clearing funds in RMB and foreign currencies. The Capital Operations Department is responsible for transferring funds in RMB and foreign currencies. The Finance & Accounting Department is responsible for the accounting of foreign exchange settlement and sale business. The

Risk Management Department is responsible for the risk monitoring and management of the foreign exchange settlement business, the compliance review of the business operation process, and the supervision and management of the authority of the business personnel. Sinochem Finance performs its business in strict accordance with relevant rules and regulations and constantly standardizes the operation procedures, thus effectively preventing the occurrence of risks.

7. Control of internal audit

Sinochem Finance has established the Inspection Office &(Audit Department) to perform auditing functions on Sinochem Finance's business activities and operations. The Inspection Office (Audit Department) conducts audits and inspections on the legality and compliance of various business activities, and corrects errors and prevents defects promptly. In response to different stages of Sinochem Finance's development, the Inspection Office (Audit Department) conducts system diagnostics from time to time, makes suggestions for modifications, and evaluates, monitors and inspects the soundness and effectiveness of the internal control system and promotes improvements. The Inspection Office (Audit Department) also formulates, organizes and implements audit work plans following the regulatory requirements, Sinochem Group's audit requirements and Sinochem Finance's operational management needs. When internal control weaknesses, management deficiencies and resulting risks are identified, the Inspection Office (Audit Department) provides suggestions and recommendations to the management for improvement. The Inspection Office (Audit Department) has enhanced the appropriateness, comprehensiveness and effectiveness of internal control.

8. Control of information system

Sinochem Finance's information system is designed to meet the principles of advancement, practicality, security, reliability, efficiency and flexibility, and an advanced fund management system is adopted. The system is used for capital settlement, credit management, bill management, direct bank-enterprise connection, interfacing with financial system and other business systems, customized capital reports, and capital monitoring, satisfying Sinochem Finance's requirements for centralized capital management. Sinochem Finance also constantly improves and expands the information system according to new demands and new business. In order to ensure the safe operations of the system, the Company has formulated a series of security procedures and strictly follows them. The Company attaches great importance to the work of information confidentiality, assigns the responsibility of confidentiality to each person, and regularly conducts security checks on all confidential information and confidential carriers. The information system is placed in an independent server room with firewall, intrusion detection , intrusion prevention, security audit, network load balancing, online behavior monitoring, VPN and other equipment installed to ensure the stability and security of the network. There are dedicated personnel to inspect the server room environment, system hosts and network equipment on a daily basis, and backup key data on a daily

basis. When logging into the Company's system, keys and passwords are required, and the system administrator is responsible for the authority assignment. The key management is based on the principle of exclusive use and individual responsibility, and it is strictly forbidden to place or lend the keys to others without permission. In terms of hardware equipment, Sinochem Finance has also formulated a contingency plan for its core business system. In the event of any incident that affects the secure operation of the business system, the Company initiates the contingency plan with different handling procedures according to the type and level of emergencies, so as to protect its business from being affected. Sinochem Finance guarantees the security of fund payments and the continuity of business from all aspects, including the Company's system, staffing, and the software and hardware environment of the information system.

(iv) Overall evaluation of internal control

Sinochem Finance has a well-developed internal control system with effective implementation. In terms of capital management, the Company has a good control of capital flow risk; in terms of credit business, the Company has established appropriate risk control procedures for credit business, so that the overall risk is controlled at a reasonable level.

III. The Company's operations, management and risk control

(i) The Company's operations

As of June 30, 2023, Sinochem Finance's total assets as reported in its standalone financial statements were RMB 59.926 billion, its owner's equity was RMB 10.441 billion, its deposits from member units were RMB 49.008 billion, and its issued loans and advances were RMB 39.785 billion. From January to June, 2023, Sinochem Finance achieved an interest income of RMB 686.9702 million and a handling fee income of RMB 2.2965 million. The total profit was RMB 188.0238 million and the net profit was RMB 146.9673 million.

(ii) The Company's management

Since its inception, Sinochem Finance has adhered to the principle of prudent operations and has regulated its business practices and strengthened its internal management in strict accordance with the *Company Law of the People's Republic of China*, the *Banking Supervision Law of the People's Republic of China*, the *Accounting Standards for Enterprises*, the *Measures for the Administration of Enterprise Group Finance Companies* and relevant national financial regulations and ordinances as well as the *Articles of Association*.

(iii) Regulatory indicators

On November 13, 2022, the *Measures for the Administration of Enterprise Group Finance Companies* (CBIRC Order [2022] No. 6), as revised by the China Banking and Insurance Regulatory

Commission (referred to as “CBIRC”), came into effect. According to this revised *Measures for the Administration of Enterprise Group Finance Companies*, additional supervisory indicators have been set up and risk monitoring and early warning have been strengthened. As of June 30, 2023, all regulatory indicators of Sinochem Finance were in compliance with the regulatory requirements for the transition period of the *Measures for the Administration of Enterprise Group Finance Companies*.

(1) The capital adequacy ratio shall not fall below the minimum regulatory requirements of the CBIRC:

Capital adequacy ratio = net capital/risk-weighted assets x 100% = 14.85%, which met the regulatory requirements.

(2) The liquidity ratio shall not be less than 25%:

The Company’s liquidity ratio was 38.63%, which was greater than 25%.

(3) The loan balance shall not exceed 80% of the deposit balance and paid-in capital:

Loan balance / (deposit balance + paid-in capital) =74.49%, which was in line with the regulatory requirements.

(4) The total liabilities owed outside the Group must not exceed the net capital:

Total liabilities owed outside the Group/net capital =2.56%, which was in line with the regulatory requirements.

(5) The bill acceptance balance shall not exceed 15% of total assets:

Bill acceptance balance/total assets =2.20%, which was in compliance with the regulatory requirements.

(6) The bill acceptance balance shall not exceed three times the inter-bank deposit balance:

Bill acceptance balance/inter-bank deposit balance =32.84%, which was in line with the regulatory requirements.

(7) The total amount of bill acceptances and transfer discounts shall not exceed the net capital:

The total amount of bill acceptances and transfer discounts/net capital =17.85%, which was in line with the regulatory requirements.

(8) The margin balance of acceptance bills shall not exceed 10% of the total deposits:

No margin of acceptance bills was collected, so the regulatory requirements were met.

(9) The total investment shall not exceed 70% of the net capital:

Total investment/net capital =66.82 %, which was higher than 70% of the net capital.

(10) The net fixed assets shall not exceed 20% of the net capital:

Net fixed assets/net capital=0.04%, so the regulatory requirements were met.

In summary, Sinochem Finance has a legally valid *Financial License* and the *Business License for Enterprises as a Legal Person*, and has established a relatively complete and reasonable internal control system, which can better control risks. The Company had no significant events (such as massive withdrawal of deposits, failure to pay debts at maturity, overdue large loans, guarantee advances, and being robbed or defrauded), no major institutional changes, equity transactions or operational risks that may affect the normal operation of the Company, no administrative penalties and orders for rectification by the CBIRC and other regulatory authorities, and no violation of the provisions of the *Measures for the Administration of Enterprise Group Finance Companies* issued by the CBIRC. All the regulatory indicators of the Company have met the requirements stipulated in Article 34 of the *Measures*.