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# 1. General

1.1. In order to strengthen the internal control of cost and expense management for International Djibouti Industrial Parks Operation FZCO (hereinafter referred to as "IDIPO" or “the Company”), enhance economic efficiency, improve competitiveness, and continuously improve the level of cost and expense management, this regulation is formulated in accordance with relevant laws and regulations and with reference to the Internal Control Measures on Costs and Expenses issued by China Merchants Port Group Co., Ltd.

1.2. This regulation applies to IDIPO and its wholly owned, majority-owned, and entrusted managed subsidiaries (hereinafter collectively referred to as “the Companies”). Investee companies may refer to this regulation for implementation. The term “cost and expense” in this regulation refers to various economic resource expenditures incurred or paid in the course of business operations to achieve economic benefits, as well as other expenditures not directly related to the acquisition of resources but required to be borne in the current period. Cost and expenses include operating costs and period expenses (including operating, selling, administrative, and financial expenses). Construction costs related to infrastructure projects are not governed by this regulation..

1.3. In the process of managing cost and expenses, the Company shall at a minimum pay attention to the following potential risks:

1.3.1. Cost and expense expenditures that violate national laws and regulations, potentially resulting in external penalties, financial losses, or reputational damage.

1.3.2. Cost and expense expenditures that are not properly approved or that exceed authorization limits, which may lead to significant errors, fraud, or financial loss.

1.3.3. Inaccurate or unreasonable cost and expense forecasts, which may result in budget overruns or unbudgeted spending, thereby damaging the Company's interests.

1.3.4. Inaccurate, unlawful, or incomplete accounting and financial information regarding costs and expenses, which may distort the Company's financial reports.

1.4. When establishing and implementing internal controls over cost and expenses, the Company shall at a minimum strengthen controls over the following key areas or processes:

1.4.1. The division of responsibilities, authority limits, and approval procedures shall be clearly defined and standardized; organizational structure and staffing shall be scientific and reasonable.

1.4.2. The basis for setting cost quotas and preparing cost plans shall be adequate and appropriate; cost-related matters and decision-making processes shall be clearly defined and standardized.

1.4.3. There shall be clear policies and procedures covering cost and expense forecasting, decision-making, budgeting, control, accounting, analysis, performance evaluation, and the formulation and settlement of internal pricing and cost accounting methods.

## 2. Division of Responsibilities and Authorization for Approval

2.1. The company shall establish a position-based responsibility system for cost and expense management, clearly defining the duties and authorities of relevant internal departments and roles. It must ensure the separation, checks, and supervision of incompatible positions involved in cost and expense processes. Personnel assigned to the same position should be rotated or replaced periodically to prevent one individual from being in charge of the same task for an extended period Incompatible positions related to cost and expense management shall at a minimum include：

2.1.1. Preparation and approval of cost and expense quotas and budgets;

2.1.2. Execution and approval of cost and expense disbursements;

2.1.3. Execution of cost and expense disbursements and related accounting record-keeping.

2.2. The company shall assign qualified personnel to perform cost and expense accounting tasks. These personnel must possess solid professional knowledge, adhere to legal and ethical standards, and conduct themselves with objectivity and integrity. The company shall offer ongoing training to improve their professional competence and ethical standards.

2.3. The company shall establish a strict authorization and approval system for cost and expense activities, clearly specifying the approver’s method of authorization, approval limits, procedures, responsibilities, and relevant control measures. The duties and work requirements of personnel responsible for executing cost and expense tasks shall also be defined.

2.4. Approvers shall perform approvals within the scope of authority defined by the cost and expense authorization policies and shall not exceed their approval limits.

Personnel executing the transactions shall act within their responsibilities and carry out cost and expense activities according to the approver’s decisions.

# 3. Cost and Expense Forecasting, Decision-Making, and Budget Control

3.1. The company shall use historical cost and expense data, benchmarking information from similar companies in the industry, trends in material, labor, and overhead costs, availability of human and material resources, and product sales conditions to make scientific forecasts of future cost and expense levels and trends. Forecasting methods may include cost-volume-profit (CVP) analysis, input-output analysis, variable cost calculation, quantitative and qualitative analysis, and value chain cost comparison analysis. Based on these forecasts, the company shall formulate scientific and reasonable cost and expense management target.

3.2. Cost and expense forecasting shall adhere to the principle of minimizing costs while maximizing benefits, with clearly defined timeframes. Reasonable cost and expense quota standards shall be established, taking into account the uncertainties inherent in forecasting.

3.3. Cost and expense forecasts must align with the company's overall strategic objectives. Various cost-reduction strategies should be evaluated to determine the optimal cost and expense solution.

3.4. When making decisions based on cost and expense forecasts, the company shall evaluate product design, production processes, production organization, and decisions regarding in-house manufacturing versus outsourcing of parts. Techniques such as value analysis, process flow optimization, and production batch planning shall be used to identify effective measures for reducing costs and expenses.

3.5. Based on the targets set by cost and expense forecasting decisions, the company shall establish a cost and expense budget. By formulating this budget, the company can translate its cost and expense goals into actionable plans and strengthen control over cost and expense management. The preparation of the cost and expense budget shall comply with the relevant provisions of the company's Budget Management Policy.

## 4. Cost and Expense Execution Control

4.1. The company shall reasonably determine material suppliers and procurement prices in accordance with the relevant provisions of the company's Procurement Management Policy. It shall use the economic order quantity method to determine material purchase volumes and control both procurement and storage costs. The company shall break down cost and expense indicators based on the budget, quotas, and expenditure standards, assign responsibility to the relevant departments or individuals, and ensure the effective implementation of the cost and expense budget. The company shall clearly define the scope and standards for manufacturing overhead expenditures and use flexible budgeting and other methods to strengthen control over manufacturing expenses.

4.2. The company shall implement an approval process for all cost and expense disbursements. Based on the nature of the budget and expenditure standards, expense requests shall be reviewed and approved in accordance with the authorization limits defined in the company's approval procedures. The Finance Department, together with relevant departments, shall recheck the cost and expense items and standards before approval.

4.3. The company shall designate responsible personnel to break down cost and expense targets, track variances, and provide timely feedback and reporting on cost and expense performance.

4.4. The company shall standardize cost and expense items, their associated standards, and payment procedures, enforcing strict control over spending. For cost and expense items not included in the budget but deemed necessary, an application for additional budget allocation must be submitted and approved according to the prescribed procedures. For budgeted items that exceed standard expenditure limits, the relevant department shall submit a request and obtain approval from the authorized higher-level department.

4.5. For internal services or transfers of components between departments, the method of cost and expense recognition shall follow the principle of serving the best interests of both the transferring and receiving parties, as well as the overall interests of the company.

4.6. When processing expense disbursements, the company's accounting department or personnel must strictly verify the authenticity, completeness, legality, and compliance of all relevant documents, such as invoices and settlement vouchers, based on the approved expense application.

## 5. Cost and Expense Accounting

5.1. The company shall regularly perform cost and expense accounting, establish necessary consumption quotas, define cost and expense settlement methods, and clarify the flow and management of original records and vouchers related to cost and expense accounting.

5.1.1. Cost recognition and measurement shall comply with the provisions of the Enterprise Accounting Standards and the Application Guidelines for Enterprise Accounting Standards.

5.1.2. Cost and expense accounting shall reflect actual economic activities and be based on actual incurred amounts. Artificial inflation or deflation of costs is prohibited.

5.1.3. Cost and expense accounting shall provide useful information for future company decision-making.

5.1.4. Costs and expenses shall be accounted for on a periodic basis.

5.1.5. Costs and expenses incurred during a specific period shall be matched with the corresponding revenue of the same period.

5.1.6. The methods used for cost and expense accounting shall be applied consistently over time.

5.1.7. The principles of materiality shall be considered in cost and expense collection, allocation, and accounting.

5.2. The collection and allocation of costs and expenses shall adhere to the following requirements:

5.3. The company shall select a reasonable cost and expense accounting method based on its business characteristics and management requirements.

5.4. The company shall periodically conduct cost accounting and expense recognition. The cost and expense accounting must comply with the Enterprise Accounting Standards and the Application Guidelines for Enterprise Accounting Standards. Costs such as materials, labor, and indirect expenses incurred during operations shall be properly collected and allocated. It is strictly prohibited to arbitrarily change the criteria or measurement methods for cost and expense recognition or to falsely report, overstate, understate, or omit any costs or expenses.

## 6. Cost and Expense Analysis and Evaluation

6.1. The company shall conduct regular analysis of costs and expenses. Methods such as comparative analysis, ratio analysis, factor analysis, and trend analysis may be used to assess the implementation of cost and expense budgets, identify the causes of variances, and explore ways and methods to reduce costs and expenses.

6.2. The company shall prepare internal reports on costs and expenses on a regular basis to monitor expenditures in real time. Any issues identified should be promptly reported to the relevant departments.

6.3. The company shall regularly evaluate costs and expenses, and conduct performance assessments and apply rewards or penalties to the responsible cost and expense units. The purpose of such assessments is to encourage responsible departments and individuals to reasonably control production costs and resource consumption. Assessment tasks mainly include revising cost and expense budgets, setting cost evaluation indicators, analyzing results, and evaluating performance.

6.4. In conducting cost and expense assessments, the company may use indicators such as target cost savings and target cost saving rates to comprehensively evaluate the implementation of budgets or spending standards by responsibility centers, ensuring that performance evaluations are fair and reasonable.

6.5. The company shall strengthen supervision and inspection of cost and expense activities, carrying out regular and ad hoc inspections. Inspection items include:

6.5.1. Staffing and position arrangements related to cost and expense operations;

6.5.2. Implementation of cost and expense authorization and approval procedures;

6.5.3. Execution of cost and expense budgets;

6.5.4. Execution of cost and expense accounting processes.

6.6. The company shall raise cost awareness among all employees by means of training, awareness campaigns, and reward and penalty systems to encourage proactive cost savings.

## 7. Supplementary Provision

7.1. This policy shall be interpreted and revised by the company's Financial Management Department.

7.2. This policy shall come into effect on the date of its issuance.