山東墨龍石油機械股份有限公司

Shandong Molong Petroleum Machinery Company Limited*

(a Sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 568)

2019 Annual Report

*For identification purpose only

I. Important, Contents and De□nitions

The board of directors, the supervisory committee and the directors, supervisors and senior management of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this report, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

Liu Yun Long, the legal representative of the Company, Liu Min, the person in charge of accounting department and Ding Zhi Shui, the head of the accounting department, declare that they guarantee the truthfulness, accuracy and completeness of the □nancial statements in the Annual Report.

All Directors attended the Board meeting for considering this report.

The Company has described in details the risks it may encounter and the related measures in "IX. Prospects for future development of the Company" under "Discussion and Analysis of Operations" in Section IV of this annual report. Investors are advised to read carefully the contents thereof.

The Company plans not to dispatch cash dividends nor bonus shares and not to increase share capital with provident fund.

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I. Important, Contents and De□nitions

Definitions

Te m	De ni ion
"Company", "parent company", and "Shandong Molong"	Shandong Molong Petroleum Machinery Company Limited
"Group"	Collectively, the Company and its subsidiaries
"SZSE"	The Shenzhen Stock Exchange
"SEHK"	The Stock Exchange of Hong Kong Limited
"CSRC"	China Securities Regulatory Commission
"Shouguang Baolong"	壽光寶隆石油器材有限公司 (Shouguang Baolong Petroleum Equipment Co., Ltd.)
"Weihai Baolong"	威海市寶隆石油專材有限公司 (Weihai Baolong Special Petroleum Materials Co., Ltd)
"Shouguang Maolong"	壽光懋隆新材料技術開發有限公司 (Shouguang Maolong New Materials Technology Development Co., Ltd.)
"Molong Energy"	山東墨龍能源科技有限公司(Shandong Molong Energy Technology Co., Ltd.)
"Molong I&E"	山東墨龍進出口有限公司(Shandong Molong Import & Export Co., Ltd.)
"MPM"	MPM International Limited
"Molong Logistic"	壽光墨龍物流有限公司(Shouguang Molong Logistic Co., Ltd.)
"Maolong Recycle"	壽光市懋隆廢舊金屬回收有限公司(Shouguang Maolong Old Metals Recycle Co., Ltd.)
"Baolong Resource"	文登市寶隆再生資源有限公司(Wendeng Baolong Recyclable Resource Co., Ltd.)
"Baolong Consultancy"	壽光市寶隆管理諮詢有限公司(Shouguang Baolong Management and Consultancy Co., Ltd.)
"reporting period"	1 January 2019 to 31 December 2019
"RMB", "RMB ten thousand"	Renminbi, ten thousand Renminbi

II. Company Pro□le and Key Financial Indicators

I. Company Profile

Stock Name Abbreviation	山東墨龍	Stock Code	002490, 00568
Stock Exchange of Listed Securities	The Shenzhen Stock Exchange, The Hong Kong Stock Exchange		
Chinese Name of the Company	山東墨龍石油機械股份有限公司		
Abbreviation of the Chinese Name	山東墨龍		
English Name of the Company (if any)	Shandong Molong Petroleum Machinery Company Limited		
Abbreviation of the English Name (if any)	Shandong Molong		
Legal Representative of the Company	Liu Yun Long		
Registered Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province		
Postal Code of Registered Address	262700		
Of□ce Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province		
Postal Code of Of□ce Address	262700		
Website of the Company	https://www.molonggroup.com		
Email Address	dsh@molonggroup.com		

II. Contact Persons and Contact Information

	Sec e a o he Boa d	**Sec i ie Affai Re, e en a i e**
Name	Liu Min	Zhao Xiaotong
Contact Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Telephone	0536–5100890	0536–5100890
Facsimile	0536–5100888	0536–5100888
Email Address	lm@molonggroup.com	dsh@molonggroup.com

III. Information Disclosure and Places for Inspection

Designated Newspapers for Information Disclosure	China Securities Journal, Securities Daily and Securities Times
Designated Domestic Website for the Publication of the Annual Report as approved by China Securities Regulatory Commission	Domestic: http://www.cninfo.com.cn; Overseas: http://www.hkex.com.hk
Places for Inspection of the Company's Annual Report	Board of Directors Of□ce of the Company

IV. Registry Changes

Organisation No.	No change
Changes in principal operations (if any) since the Company's listing	No change
All changes in controlling shareholders (if any)	No change

V. Other Relevant Information

Accounting □rm engaged by the Company

Name of the accounting □rm	Shinewing Certi□ed Public Accountants Ltd. (Special General Partner)
Of□ce address of the accounting □rm	9th Floor, Fuhua building A, No. 8 Chaoyangmen North Street, Dongcheng District, Beijing
Name of the signing certi□ed public accountants	Kan Jing Ping, Zhang Xiu Qin

Sponsor institution which executes continuous supervision duties during the reporting period engaged by the Company

☐ Applicable ✓ Not applicable

Financial consultant which executes continuous supervision duties during the reporting period engaged by the Company

☐ Applicable ✓ Not applicable

VI. Key Accounting Data and Financial Indicators

Whether the Company made retroactive adjustment or restated accounting data in previous years.

☐ Yes ✓ No

	2019	2018	Year-on-year increase/decrease	2017
Operating revenue (RMB)	**4,388,904,215.91**	4,452,014,810.12	–1.42%	2,965,216,722.37
Net pro□t attributable to shareholders of listed company (RMB)	**(196,309,267.90)**	92,476,375.01	–312.28%	38,038,484.18
Net pro□t after extraordinary gains or losses attributable to shareholders of listed company (RMB)	**(195,511,134.59)**	76,871,118.68	–354.34%	(178,210,786.99)
Net cash □ows generated from operating activities (RMB)	**688,353,418.08**	369,589,596.32	86.25%	32,500,954.17
Basic earnings per Share (RMB/share)	**(0.246)**	0.1159	–312.25%	0.05
Diluted earnings per Share (RMB/share)	**(0.246)**	0.1159	–312.25%	0.05
Weighted average rate of return on net assets (%)	**10.63%**	4.82%	–15.45%	2.07%

	A a he end of 2019	As at the end of 2018	Year-on-year increase/decrease	As at the end of 2017
Total assets (RMB)	**5,735,752,344.59**	6,607,536,593.37	–13.19%	6,222,802,967.54
Net assets attributable to shareholders of listed company (RMB)	**1,747,518,970.85**	1,944,091,288.19	–10.11%	1,869,595,561.71

VII. Differences in accounting data under domestic and overseas accounting standards

1. Diffe ence in ne , o K and ne a e in he K nancial a emen a di clo ed nde he In e na ional Acco n ing S anda d (IAS) and PRC Gene all Acce , ed Acco n ing P inci , le (PRC GAAP)

☐ Applicable ✓ Not applicable

During the reporting period, there were no differences in net pro□t and net assets in the □nancial statements as disclosed under the IASs and PRC GAAP.

2. Diffe ence in ne , o K and ne a e in he K nancial a emen a di clo ed nde he o e ea acco n ing anda d and PRC GAAP

☐ Applicable ✓ Not applicable

During the reporting period, there were no differences in net pro□t and net assets in the □nancial statements as disclosed under the overseas accounting standards and PRC GAAP.

VIII. Key financial indicators by quarter

Unit: RMB

	Fi a e	Second a e	Thi d a e	Fo h a e
Operating revenue	1,116,519,044.75	1,260,925,989.51	1,023,689,794.92	987,769,386.73
Net pro□t attributable to shareholders of listed company	7,433,709.06	10,579,214.30	(51,188,088.71)	(163,134,102.55)
Net pro□t after extraordinary gains or losses attributable to shareholders of listed company	(4,290,090.72)	19,283,752.30	(56,744,614.49)	(153,760,181.68)
Net cash □ows from operating activities	161,071,277.26	112,640,354.54	112,806,406.28	301,835,380.00

Whether the above □nancial indicators or aggregate is material different from the relevant □nancial indicators disclosed in quarter reports or semi-annual reports of the Company.

☐ Yes ✓ No

IX. Extraordinary gain or loss items and amounts

✓ Applicable ☐ Not applicable

Unit: RMB

I em	2019 Amo n	2018 Amount	2017 Amount	Note
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	**5,216,498.87**	3,472,397.69	61,798,374.25	(1)
Tax rebate or tax concessions from unauthorised approval or non-of□cial approved documents		—	5,640,168.00	—
Government grant recognised in current pro□t and loss (excluding those grants that are closely related to the Company's business and that were granted in accordance with the standard amount or volume prescribed by the State)	**14,032,294.31**	29,456,919.93	150,635,684.23	(2)
Pro□t or loss arising from contingencies unrelated to the normal operation of the Company	**(29,170,030.14)**	(9,489,704.33)	(8,000,000.00)	(3)
Gain or loss arising from changes in fair value of □nancial assets held for trading, derivative □nancial assets, □nancial liabilities held for trading and derivative □nancial liabilities, and disposal of □nancial assets held for trading, derivative □nancial assets, □nancial liabilities held for trading and derivative □nancial liabilities and investment income from other debt investments, other than the effective hedging business related to the normal operation of the Company	**3,490,824.04**	1,346,581.79	—	(4)
Write-back of provision for receivables and contract assets subject to individual impairment test	**5,993,355.82**	—	10,718,760.00	(5)
Non-operating income and expenses other than the above items	**4,927,933.70**	1,558,301.01	(2,810,442.28)	(6)
Less: Effect on income tax	**2,965,641.14**	8,669,151.99	1,407,291.50	(7)
Effect on minority interests (after tax)	**2,323,368.77**	2,070,087.77	325,981.53	—
Total	**(798,133.31)**	15,605,256.33	216,249,271.17	—

N e :

(1) The gain or loss on disposal of non-current assets increased by 50.23% compared to the same period of last year, primarily attributable to the receipt of compensation for green land acquisition during the period.

(2) The government grants credited to the pro□t or loss for the current period decreased by 52.36% compared to the same period of last year, primarily attributable to reduction in subsidies and grants for recycling resource enterprises received during the year.

(3) The gain or loss arising from contingencies unrelated to normal operations of the Company decreased by 207.39% compared to the same period of last year, primarily attributable to the increased provision for compensations for investors' claims during the period.

(4) It was primarily attributable to the growth in investment income of 159.24% compared to the same period of last year due to the increase in return from bank wealth management.

(5) The write-back of provision for receivables and contract assets subject to individual impairment test increased by 100% compared to the same period of last year, primarily attributable to the reduction of provision rate by the Company because during the period, the Company reached and properly observed an agreement on repayment schedule for the accounts receivable subject to individual impairment test.

(6) Non-operating income and expenses other than the above items increased by 216.24% compared to the same period of last year, primarily attributable to the transfer of the outstanding payables to non-operating income during the period.

(7) The effect on income tax decreased by 65.79% compared to the same period of last year, primarily attributable to the decrease in total non-operating pro□t or loss, resulting in the corresponding reduction in effect on non-operating income tax.

Reasons should be given if the Company has classi□ed any extraordinary pro□t or loss items (as de□ned and listed in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Extraordinary Pro□t and Loss) as recurring gain and loss items.

□ Applicable ✓ Not applicable

The Company did not classify any extraordinary profit and loss items (as defined and listed in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Extraordinary Pro□t and Loss) as recurring gain and loss items during the reporting period.

III. Summary of the Company Business

I. Principal businesses engaged by the Company during the reporting period

(I) De c i ion of he G o ' inci al b ine e d ing he e o ing e iod

During the reporting period, the Company was principally engaged in research and development, production and sales of products for the energy equipment industry. The main products included pipes for petroleum and gas extraction, uid and structural pipes, petroleum pumping machine, petroleum pump, petroleum pumping rods, cylinder liners for drilling rigs, valve parts and large castings and forgings. The Company's products were mainly used in petroleum, natural gas, coalbed methane, shale gas and other energy drilling, machinery processing, urban pipe network, etc. During the reporting period, sales of pipe products accounted for over 75% of the Company's revenue, which was the main source of the revenue and pro t of the Company. During the reporting period, there was no material change in the composition of Company's main businesses.

The Company's main products, especially pipe products, were divided into API standard products and non-API standard products. The Company adopted a "sales-based production" business model for production, i.e. the production system of the Company will produce, inspect and deliver the products according to the order placed by customer specifying the required speci cation and quantity. The Company adopted a centralised procurement model under which all raw materials, moulds and equipment were centrally purchased by the procurement department and it was also responsible for the signing of procurement contracts, procurement status follow-up, facilitating quality improvement of raw material. The procurement department strictly controlled the selection of suppliers based on the comprehensive overall evaluation index system, fostered quality partners and developed long-term and stable strategic partnership. The Company had a relatively mature sales network and has established dedicated sales companies and import & export companies, responsible for domestic and international market research, research and development, product sales and post-sales services, respectively.

(II) De elo men age and c clical cha ac e i ic of he ind he Com an o e a e and he o i ion of he Com an in he ind d ing he e o ing e iod

Products of the Company were mainly used in the exploitation of energy sources such as oil and natural gas, and were within the scope of energy equipment manufacturing industry. The development and prosperity of the industry of exploitation of energy sources such as oil and natural gas were directly related to the development status of the industry the Company operates in. Demand for energy consumption, changes in economic cycle, and uctuations in raw material prices were the main factors affecting the prosperity of the industry the Company operates in.

According to the World Energy Outlook (2018 edition), in the long run, demand for oil and gas would be on the rise. In China, due to the increasing reliance on imported crude oil and natural gas as well as the prominent energy safety issues, there were urgent needs for importation instead of increasing the self -development rate. In recent years, the government has rolled out various policies to encourage exploration and development of oil and gas resources. In May 2019, the National Energy Administration organised and convened a meeting about vigorously increase the exploration and development of oil and gas. At the meeting, it was proposed that in order to vigorously increase oil and gas exploration and development in 2019 and onwards, oil companies should ful l their responsibilities of increasing reserves and production, and to complete the tasks under the "Seven-Year Action Plan" for 2019–2025 without compromise to. Under the guidance of the policy, the three largest oil companies formulated its "Seven-Year Action Plan" in 2019 to increase inputs to the exploration and development of oil and gas. With the acceleration of oil and gas production and the increasing oil and gas capital expenditures, the domestic oil service industry was expected to become more prosperous.

II. Significant changes in major assets

1. Signi can change in majo a e

Majo a e	De c i ion of igni can change
Equity assets	No signi cant change during the reporting period
Fixed assets	No signi cant change during the reporting period
Intangible assets	No signi cant change during the reporting period
Construction in progress	As at the end of the reporting period, the balance of construction in progress increased by 53.42% from the beginning of the year, primarily attributable to the un nished installation of certain imported equipment in the current year.
Loans and advances	As at the end of the reporting period, loans and advances decreased by 55.79% from the beginning of the year, primarily attributable to the recovery of loans and provision of impairment during the current period.
Prepayments	As at the end of the reporting period, prepayments increased by 32.95% from the beginning of the year, primarily attributable to the increase in payments for materials during the current period.
Other receivables	As at the end of the reporting period, other receivables decreased by 38.59% from the beginning of the year, primarily attributable to the receipts of subsidies for recycling resources enterprises during the period.
Other current assets	As at the end of the reporting period, other current assets decreased by 75.69% from the beginning of the year, primarily attributable to the return of wealth management funds by banks on maturity during the period.
Goodwill	As at the end of the reporting period, goodwill decreased by 100% from the beginning of the year, primarily attributable to the provision of impairment made during the period.
Other non-current assets	As at the end of the reporting period, other non-current assets decreased by 30.50% from the beginning of the year, primarily attributable to the arrival of certain equipment during the period which was purchased by prepayments in the previous period.

2. Condi ion of majo o e ea a e

☐ Applicable ✓ Not applicable

III. Analysis of core competitiveness

1. Com,e i i e edge in echnolog de elo,men

With the emphasis on investment in technology development and advancement of proprietary innovation capability, the Company formed a professional and stable scienti□c research team through internal nurturing and external introduction of talents, and collaboration with tertiary colleges and scienti□c research institutes, to enable it to have strong strengths in research and development. The Company now has 74 patents, of which 63 are utility model patent applications, 11 are invention patent applications. 72 of them have been listed as provincial technology innovations in Shandong. The Company is a high-new technology enterprise in Shandong, with the establishments of Shandong OCTG Engineering and Technological Research Center (山東省石油專用管工程技術研究中心) and is recognised as a Shandong provincial enterprise technology centre. The post-doctoral scientific research work station of the Company has become the "□rst nation-wide and industry-wide post-doctoral scienti□c research work station".

2. Com,e i i e edge in , od c ali

The Company attaches great importance to management of product quality. To fully ensure the product quality, the Company is well-equipped with inspection and monitoring equipment. The Company has long been accredited ISO9001 international quality system certi□cation, ISO14001 environmental management system certi□cation and OHSAS18001 occupational health and safety management system certi□cation. With the main products being approved to use the industry logo of American Petroleum Institute (abbreviated as "API"), the Company successfully gained access to the domestic and global oil □eld markets. The main products, namely casings, valves, mud pump liners, precision stainless steel forgings, three kinds of oil pumping units and accessories, are highly marketable globally in major oil-producing regions such as Europe, the Americas and the Middle East, and are well-received by local and overseas customers.

3. Com,e i i e edge in ma ke ing

The Company sets foothold in China and goes global. Over the years of development, the Company has built a network providing long-term, stable, fast and effective sales services and established a loyal, long-lasting and win-win partnership with mass customers. In the domestic market, the Company has a relatively stable customer base which includes, without limitation to, PetroChina, Sinopec, CNOOC and Yanchang Petroleum. The major overseas markets are countries and regions including the United States, Mexico, Canada, Russia, the Middle East. The Company has a marketing team consisting of talents who are professionals in international trade and marketing and have extensive experience and strong business competence, which allows the Company to enjoy, to a certain extent, competitive edge in marketing of oil equipment products

4. Com,e i i e edge in b and name

The Company is a listed company that specialises in the design, research and development, process manufacturing, sales and exports of energy equipment. The Company is also a qualified supplier of the largest four oil conglomerates in China and one of the top four suppliers of PetroChina's Type I products. The Company has always adhered to its principle of "encouraging all people, absorbing all thinks, collecting all contributions and creating all achievements". Through expansion of scale and extension of production chains, the Company has gained good reputation and solid position in the energy equipment market sector. The "Molong" trademark of the Company is named as a famous trademark of Shandong Province, and the products of the Company have become a key export brand for nurturing and development in Shandong Province.

III. Summary of the Company Business

Financial Re ie

During the reporting period, the Company achieved an operating revenue of RMB4,389 million, representing a decline of 1.42% year-on-year. Net profit attributable to shareholders of the listed company amounted to RMB–196 million, representing a decrease of 312.28% year-on-year. Basic earnings per share was RMB–0.246 per share, representing a year-on-year decrease of 312.25%. The Group's nancial review for the year ended 31 December 2019 is set out in the "Discussion and Analysis of Operations" section of this annual report.

P o e , Plan and E i men

Details of changes in the property, plant and equipment of the Group for 2019 are set out in the "Financial Statements" section of this report.

Long- e m E i In e men and Fi ed A e

Details of long-term equity investments and fixed assets of the Company are set out in the "Financial Statements" section of this report, respectively.

Sha e Ca i al and Sha e O ion

The movements in the Company's authorised and issued shares during the Year are set out in the "Changes in Shares and Shareholders" section and the "Financial Statements" section of this report.

During the Year, the Company did not operate any share option scheme.

P e-em i e Righ

There is no provision for pre-emptive rights under the Articles or the laws of the PRC which would oblige the Company to offer new shares on a11 1 Equity Invof"Discussion and Analysis of Ope1s of 0 0 8 (es on aTf 0d A18(epor11 1 Equity Invof)11i l2on for pr)

En i onmen al P o ec ion

The environmental protection policy adopted by the Group is set out in the section headed "Environmental, Social and Governance Report" of this annual report.

Em lo ee

Details of employees and remuneration policy of the Group is set out in the sections head "Directors, Supervisors, Senior Management and Employees" and "Environmental, Social and Governance Report" of this annual report.

Dona ion

The Company paid great attention to the creation of social value and placed our focus of ful lling social responsibility on actively participating in social services. We have spared no effort to join social services and charity activities and organise numerous donations with a view to rewarding the society within our capacity. During the Year, the Group spent approximately RMB1.2 million on charitable donations and nancial assistance to staff in need.

Di ec o

The existing Directors during the Year and up to the disclosure date of this annual report were:

E ec i e Di ec o :

Mr. Liu Yun Long
Mr. Liu Min
Mr. Li Zhi Xin
Mr. Zhang Yu Zhi

Non-e ec i e Di ec o :

Mr. Yao You Ling
Mr. Wang Quan Hong

Inde enden non-e ec i e Di ec o :

Mr. Tang Qing Bin
Mr. Song Zhi Wang
Mr. Cai Zhong Jie

S e i o :

Di ec o ' and S e i o ' Se ice Con ac o Le e of A oin men

Each of the Directors and Supervisors (including the independent non-executive Directors and the Supervisors) has entered into a service contract or letter of appointment with the Company, respectively for a tenure commencing from 21 December 2018 and ending on 20 December 2021. None of the Directors or Supervisors has entered into any service contracts with the Company which is not determinable by the Company within one year without payment compensation, other than statutory compensation.

Rem ne a ion of he Di ec o and S e i o and Fi e Highe Paid Indi id al

For the information on the remuneration of the Directors, Supervisors and ve highest paid individuals of the Company in 2019, please refer to "Compensation of Key Management Personnel" in the "Financial Statements" section of this report.

Di ec o ' and S e i o ' Ma e ial In e e in T an ac ion , A angemen and Con ac

There were no transactions, arrangements or contracts which were signi cant to the Group's business and in which any of the Directors or Supervisors had a material interest, whether directly or indirectly, subsisted at the end of 2019 or at any time in 2019.

Di ec o ' and Of ce ' Liabili In ance and Indemni

The Company has arranged appropriate liability insurance to indemnify its Directors and of cers in respect of legal actions against the Directors and of cers. Throughout 2019, no claim had been made against the Directors and the of cers of the Company.

Di ec o ', S e i o ' and Chief E ec i e' In e e in Sec i ie

As at 31 December 2019, interests or short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be noti ed to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be noti ed to the Company and to the Stock Exchange, were as follows:

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Name	Na e of in e e	N mbe of A ha e	Pe cen age of A ha e	Pe cen age of o al egi e ed ca i al
Liu Yun Long	Bene cial interest	2,500	0.0004%	0.0003%
Wang Quan Hong	Bene cial interest	139,500	0.03%	0.02%

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, the Supervisors or chief executive had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be noti□ed to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be noti□ed to the Company and to the Stock Exchange.

Di ec o ' and S e i o ' Righ o Ac i e Sha e o Deben e

None of the Directors or Supervisors or their respective associates (as de□ned under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any rights to acquire any shares in or debentures of the Company or had exercised any such rights in 2019.

S b an ial Sha eholde ' and O he Pe on ' In e e and Sho Po i ion in Sha e and Unde l ing Sha e

As at 31 December 2019, to the best knowledge of the Directors, Supervisors and chief executive, as indicated in the register of interests and/or short positions required to be maintained pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of SFO, the substantial shareholders and other persons had the following interests and/or short positions in the Shares or underlying Shares of the Company as follows:

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Name	Na e of in e e	N mbe of A ha e	Pe cen age of A ha e	Pe cen age of o al egi e ed ca i al
Zhang En Rong *(N e 1, 3)*	Bene□cial interest	235,617,000	43.49%	29.53%
Zhang Yun San *(N e 3)*	Bene□cial interest	23,108,000	4.27%	2.90%
Shandong Guohui Investment Co. Ltd. (山東國惠投資有限公司)	Security interest	150,617,000	27.80%	18.88%
China Great Wall Asset Management Co., Ltd. (中國長城資產管理股份有限公司山東省分公司) *(N e 2)*	Corporate interest	37,000,000	6.83%	4.64%
China Great Wall Asset Management Co., Ltd. Shandong Branch (中國長城資產管理股份有限公司山東省分公司)	Security interest	37,000,000	6.83%	4.64%

Name	T e of in e e	N mbe of H ha e	Pe cen age of H ha e	Pe cen age of o al egi e ed ca i al
Zhang Yun San *(N e 3)*	Bene□cial interest	9,060,400	3.54%	1.14%

III. Summary of the Company Business

Co ,o a e Go e nance

Details of corporate governance of the Company are set out in the "Corporate Governance" section of this report.

S fkcienc of P blic Floa

The Company has maintained a sufficient public float throughout the year ended 31 December 2019. To the best knowledge of the Directors, the Company has ful□lled the public □oat requirements under Rule 8.08 of the Listing Rules.

Clo e of Regi e of Membe

The register of members of the Company will be closed from Thursday, 21 May 2020 to Friday, 19 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfers must be lodged with the Company's share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, 20 May 2020.

A di o

The Company has appointed ShineWing CPA Limited (Special General Partnership) as the auditor of the Company. ShineWing CPA Limited (Special General Partnership) will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

Di idend Polic

Any declaration of dividends shall be made in accordance with the articles of association of the Company and at the discretion of the Board, and shall be subject to approval of shareholders if required. The decisions on any dividend payment and amount are dependent to a number of factors including but not limited to the operating results, revenue, □nancial position and liquidity of the Company and other economic factors that may affect the Company.

E en af e he Re ,o ing Pe iod

Save for the above-mentioned subsequent event, the Group had no other substantial events.

On behalf of the Board
Shandong Molong Pe ole m Machine Com ,an Limi ed
C a a
Li Y n Long

Shandong, the PRC, 27 March 2020

IV. Discussion and Analysis of Operations

I. Overview

In 2019, China's economy remained stable in general but was facing increasing downward pressure due to the US-Mainland trade friction and the stagnant global economy. Demand for energy consumption, changes in economic cycle and fluctuations in raw material prices were the main factors affecting the prosperity of the energy equipment manufacturing industry. China's economy was still in the critical period of energy conversion. As the supply-side structural reform in China deepens, the government strengthened the counter-cyclical adjustment to macroeconomic policies, implemented aggressive fiscal policies and prudent monetary policies to ease the economic downturn and revitalise the economic growth momentum. Therefore, the economy will change from a high-speed growth stage to a high-quality development stage.

During the reporting period, During the reporting period, the Company faced a tough development landscape domestically and internationally. In 2019, the prices of major raw materials increased significantly, which led to a substantial increase in production costs. Besides, certain products of the Company suffered from a decline in prices, which narrowed down the profit margins. Shouguang Maolong, a wholly owned subsidiary, suspended production for overhaul and maintenance, and carried out technology upgrade of some equipment, and thus incurred a significantly higher overhaul expenses. It also limited the supply of raw materials required for production by downstream subsidiaries, resulting in an increase in production costs. Owning to the litigation instigated by investors, a provision of RMB29,170,000 was made for the year in respect of the loss from investors' claims. The Company also made a provision for impairment loss on assets of RMB54,994,800 in respect of the possible asset impairment loss in 2019.

In the face of dynamic economic environment and industry landscape, in 2019, management of the Company upheld the general principle of making steady progress. With a focus on strengthening quality control, the Company aggressively explored domestic and international markets, increased expenditures in research and development of technology, progressively optimised and adjusted its product structure and industry chain, and enhanced its incentive mechanism and internal management standard, and strengthened risk management and control, to ensure the steady and healthy development of the Company. In 2019, the Company produced 880,300 tons of pipe products, representing an increase of 9.74% compared to last year. The Company sold 874,900 tons of pipe products, representing an increase of 12.82% compared to last year.

During the reporting period, the Company achieved an operating revenue of RMB4,388,904,215.91, representing a decrease of 1.42% year-on-year. Operating profit was RMB–189,048,670.21, representing a decrease of 373.50% year-on-year. Total profit was RMB–215,227,132.00, representing a decrease of 451.89%. Net profit attributable to shareholders of the Company was RMB–196,309,267.90, representing a decrease of 312.28%. As at the end of the reporting period, the Company had total assets of RMB5,735,752,344.59, representing a decrease of 13.19% from the beginning of the period. Owners' equity attributable to shareholders of the Company was RMB1,747,518,970.85, representing a decrease of 10.11%. Net assets per share attributable to shareholders of the Company was RMB2.19, representing a decrease of 10.13%.

II. Analysis of principal businesses

1. O e ie

See "I. Overview" under "Discussion and Analysis of Operations" for details.

2. Income and co

(1) Com o i ion of o e a ing e en e

Unit: RMB

	2019		2018		
	Amo n	**Pe cen age o o e a ing e en e**	Amount	Percentage to operating revenue	Year-on-year increase/ decrease
Total operating revenue	**4,388,904,215.91**	**100.00%**	4,452,014,810.12	100.00%	–1.42%
By industry					
Special equipment manufacturing	**4,388,904,215.91**	**100.00%**	4,452,014,810.12	100.00%	–1.42%
By product					
Pipe products	**3,456,742,513.39**	**78.76%**	3,919,305,934.10	88.03%	–11.80%
Three kinds of pumping units	**43,755,412.12**	**1.00%**	46,384,863.25	1.04%	–5.67%
Petroleum Machinery parts	**34,536,314.66**	**0.79%**	58,383,638.50	1.31%	–40.85%
Tube blanks	**699,060,843.61**	**15.93%**	295,857,663.73	6.65%	136.28%
Others	**154,809,132.13**	**3.52%**	132,082,710.54	2.97%	17.21%
By region					
PRC	**3,724,722,383.35**	**84.87%**	4,083,930,871.08	91.73%	–8.80%
Abroad	**664,181,832.56**	**15.13%**	368,083,939.04	8.27%	80.44%

(2) Ind , od c o egion acco n ed fo mo e han 10% of he Com an ' o e a ing e en e o o e a ing o

✓ Applicable ☐ Not applicable

Unit: RMB

	O e a ing e en e	O e a ing co	G o o ma gin	Yea -on-ea inc ea e/ dec ea e in o e a ing e en e	Yea -on-ea inc ea e/ dec ea e in o e a ing co	Yea -on-ea inc ea e/ dec ea e in g o o ma gin
By industry						
Special equipment manufacturing	4,155,803,357.00	3,823,808,238.89	7.99%	–1.41%	7.98%	–8.00%
By product						
Pipe products	3,456,742,513.39	3,110,087,307.89	10.03%	–11.80%	–4.34%	–7.02%
Tube blanks	699,060,843.61	713,720,931.00	–2.10%	136.28%	146.30%	–4.15%
By region						
PRC	3,528,084,922.31	3,293,940,216.18	6.64%	–9.73%	1.30%	–10.17%
Abroad	627,718,434.69	529,868,022.71	15.59%	104.59%	83.04%	9.94%

On condition that major business data statistical caliber was adjusted in the report period, the latest one year's major business data adjusted based on the statistical caliber at the end of report

☐ Applicable ✓ Not applicable

(3) Whe he he Com an ' e en e f om ale of h ical good i mo e han income f om he o i ion of labo e ice

✓ Yes ☐ No

Ind e	I em	Uni	2019	2018	Yea -on-ea inc ea e/ dec ea e
Special equipment manufacturing	Sales volume	Ten thousand tonnes	**87.49**	77.55	12.82%
	Production volume	Ten thousand tonnes	**88.03**	80.22	9.74%
	Stock volume	Ten thousand tonnes	**10.7**	10.16	5.32%

Reasons for the movement of more than 30% of relevant data as compared to the same period of last year

☐ Applicable ✓ Not applicable

(4) Pe fo mance of he con ac ed ma e ial ale con ac of he Com an a he end of he e o ing e iod

☐ Applicable ✓ Not applicable

(5) Com o i ion of o e a ing co

B d c

Unit: RMB

		2019		2018		
P od c e	**I em**	**Amo n**	**Pe cen age o o e a ing co**	Amount	Percentage to operating costs	Year-on-year Increase/ decrease
Pipe products	Materials	**2,201,630,805.26**	**70.79%**	2,251,527,956.75	69.25%	–2.22%
Pipe products	Depreciation	**229,524,443.32**	**7.38%**	258,478,660.73	7.95%	–11.20%
Pipe products	Labour cost	**233,567,556.82**	**7.51%**	263,355,616.60	8.10%	–11.31%
Pipe products	Expenses	**445,364,502.49**	**14.32%**	477,941,674.59	14.70%	–6.82%
Three kinds of pumping units	Materials	**24,901,997.04**	**66.21%**	27,708,716.04	65.68%	–10.13%
Three kinds of pumping units	Depreciation	**2,933,629.01**	**7.80%**	3,415,580.29	8.10%	–14.11%
Three kinds of pumping units	Labour cost	**7,349,116.78**	**19.54%**	8,415,122.90	19.95%	–12.67%
Three kinds of pumping units	Expenses	**2,425,885.53**	**6.45%**	2,649,714.91	6.27%	–8.45%
Petroleum Machinery parts	Materials	**20,566,510.74**	**70.91%**	36,470,549.85	70.81%	–43.61%
Petroleum Machinery parts	Depreciation	**2,671,239.09**	**9.21%**	4,812,625.08	9.34%	–44.50%
Petroleum Machinery parts	Labour cost	**4,089,519.13**	**14.10%**	7,234,863.70	14.05%	–43.47%
Petroleum Machinery parts	Expenses	**1,676,412.81**	**5.78%**	2,985,693.49	5.80%	–43.85%
Tube blanks	Materials	**594,886,395.99**	**83.35%**	233,619,249.19	80.62%	154.64%
Tube blanks	Depreciation	**24,409,255.84**	**3.42%**	11,359,308.56	3.92%	114.88%
Tube blanks	Labour cost	**21,268,883.74**	**2.98%**	10,345,084.58	3.57%	105.59%
Tube blanks	Expenses	**73,156,395.43**	**10.25%**	34,454,637.49	11.89%	112.33%
Others	Materials	**101,545,778.20**	**70.42%**	88,309,643.35	70.25%	14.99%
Others	Depreciation	**14,246,979.39**	**9.88%**	12,769,385.87	10.16%	11.57%
Others	Labour cost	**20,591,788.02**	**14.28%**	18,039,051.70	14.35%	14.15%
Others	Expenses	**7,815,650.64**	**5.42%**	6,589,596.44	5.24%	18.61%

Note

Raw materials accounted for the most signi□cant part of the Company's cost of product, and the major raw material of the Company are pipe billet and castings.

(6) Whe he con olida ion co e changed d ing he e o ing e iod

✓ Yes ☐ No

One controlled subsidiary, Shandong Molong Energy Technology Co., Ltd. ("Molong Energy"), was consolidated into the combined financial statements of the Company for the reporting period. Molong Energy was granted its business licence on 13 March 2019, with a registered capital of RMB10 million. It is interested by Shandong Molong as to 51% and by 山東鴻進能源管理有限公司 (Shandong Hongjin Energy Management Co., Ltd.) as to 49%. The business scope of Molong Energy covers: energy management services; new energy promotion, technical services and technical consultancy; investment and construction of gas pipeline network projects; supply of urban gas; sale of gas equipment; installation and repair of gas equipment; development and sale of real properties; property leasing. As at the disclosure date of this report, Molong Energy has not yet commenced any business.

(7) Info ma ion ela ed o ignik can change o adj men of he Com an ' b ine , od c o e ice d ing he e o ing e iod

☐ Applicable ✓ Not applicable

(8) Info ma ion on majo c ome and majo lie

I f a e a c e f e C , a

Total sales of the top 5 customers (RMB)	2,102,732,694.64
Proportion of total sales of the top 5 customers over total sales for the year	47.91%
Proportion of sales of connected parties in the top 5 customers over total sales for the year	0.00%

I f a e C , a ' 5 c e

No.	Name of c ome	Sale amo n (RMB)	Pe cen age o he ann al o al ale amo n
1	Entity 1	1,018,780,396.72	23.21%
2	Entity 2	311,467,308.53	7.10%
3	Entity 3	291,364,535.62	6.64%
4	Entity 4	250,532,339.68	5.71%
5	Entity 5	230,588,114.09	5.25%
Total		2,102,732,694.64	47.91%

Pa c a f e a c e

☐ Applicable ✓ Not applicable

L f a e a e f e C a

Total purchase attributable to the top 5 suppliers (RMB)	903,124,734.90
Proportion of total purchases attributable to the top 5 suppliers over total purchases for the year	27.94%
Proportion of purchases of connected parties in the top 5 suppliers over total purchases for the year	0.00%

L f a e C a 5 e

No.	Name of he lie	P cha e amo n (RMB)	Pe cen age o al he ann al o al cha e amo n
1	Entity 1	249,969,159.93	7.73%
2	Entity 2	235,981,798.62	7.30%
3	Entity 3	175,104,265.29	5.42%
4	Entity 4	123,019,610.24	3.81%
5	Entity 5	119,049,900.82	3.68%
Total		903,124,734.90	27.94%

Particulars of the major suppliers

☐ Applicable ✓ Not applicable

3. E en e

Unit: RMB

	2019	2018	Yea -on- ea inc ea e/ dec ea e	De c i ion of ignik can change
Selling expenses	**84,340,449.53**	113,969,714.60	–26.00%	Mainly attributable to the increased proportion of sales for which delivery costs were borne by customers during the period, which resulted in a decrease in delivery costs of the Company.
Administrative expenses	**193,606,016.95**	178,822,233.92	8.27%	
Finance expenses	**146,326,178.28**	204,107,335.81	–28.31%	Mainly attributable to the decrease in combined nance costs during the period.
Research and development expenditures	**63,830,329.90**	71,979,056.24	–11.32%	
Business tax and surcharges	**25,254,426.66**	39,442,851.14	–35.97%	Mainly attributable to the decrease in tax realised for the period.

4. In e men in e ea ch and de elo men

✓ Applicable ☐ Not Applicable

The Group's major research and development projects related to tubing and casing of different models and materials.

With reference to the nature of expenditures and whether the ultimate formation of intangible asset is with great uncertainty expenditure on research and development of the Group is divided into expenditure on the research phase and expenditure on the development phase.

From early investigations to the applications after maturity, the new product R&D projects of the Group shall undergo the two phases of research and development: the phase of research includes such stages as investigation, substantiation, the initiation and approval of annual new product R&D plans, early researches (including formula design, process design, equipment selection, formulation of technical standards, etc.), the preparation and approval of monthly new product R&D plans and so on, among which the completion of approval of monthly new product R&D plans symbolizes the end of the phase of research for a new product. The phase of development includes speci□cally such stages as trial production of the new product, project acceptance, etc., the latter of which symbolises the end of the phase of development for a new product.

Start time of the phase of development: the point when the approval of monthly new product R&D plans is completed, the early researches are completed and the formula, production process and technical standards for the product are □nalised.

Expenditure on the research phase is recognized in pro□ts or losses in the current period in which it is incurred.

Expenditure on the development phase is recognized as an intangible asset when all of the following conditions are satis□ed:

(1) It is technically feasible to complete the intangible asset so that it will be available for use or sale;

(2) The management's intention to complete, use or sell the intangible asset;

(3) The Group 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, □nancial and other resources to complete the development and the ability to use or sell the intangible asset;

(5) Expenditure belongs to intangible assets development stage can be measured reliably.

Expenditure on the development phase which does not meet the above conditions is included in the pro□t or loss in the current period in which it is incurred. Expenditure in the development phase which has been included in the pro□t or loss in the prior period will not be recognised as asset in subsequent period. The capitalised expenditures in development phase are presented as development expenditure in balance sheet and it is carried down into the intangible asset since the date when the asset reaches the status of available for use.

IV. Discussion and Analysis of Operations

Explanations on main effects of signi□cant changes in related data over the same period of last year

✓ Applicable ☐ Not Applicable

(1) Net cash □ows generated from operating activities increased by 86.25% compared with the same period of last year, mainly attributable to the decrease in security deposits with maturity over 3 months and the increased effort in collection of receivables.

(2) Net cash □ows generated from investing activities increased by 112.15% compared with the same period of last year, mainly attributable to the return of wealth management funds by banks on maturity during the period.

(3) Net cash □ows generated from □nancing activities decreased by 622.50% compared with the same period of last year, mainly attributable to the change of type of bank □nancing business from differences on bank acceptance discounting to working capital loans.

Explanation on main reasons for the material difference between net cash □ows from operating activities during the reporting period and net pro□t for the year

✓ Applicable ☐ Not Applicable

During the reporting period, the Company's net cash flows generated from operating activities was materially different from its net pro□t, the reasons of which was mainly due to the combined effects of the impairment provision for □xed assets, depreciation of □xed assets, amortisation of intangible assets, the increase in □nance expenses, and the decrease in trade receivables.

III. Analysis of non-principal businesses

✓ Applicable ☐ Not Applicable

IV. Analysis of assets and liabilities

1. Signi can change in he com o i ion of a e

Unit: RMB

	A a he end of 2019		As at the beginning of 2019		Increase/	
	Amo n	Pe cen age o o al a e	Amount	Percentage to total assets	decrease in percentage	Description of the signi□cant change(s)
Monetary funds	**539,942,128.18**	**9.41%**	892,452,274.76	13.51%	–4.10%	Mainly attributable to the decrease in acceptance security deposits at the end of the period.
Accounts receivable	**507,559,024.95**	**8.85%**	536,199,939.96	8.11%	0.74%	—
Inventories	**934,907,320.58**	**16.30%**	1,042,761,257.01	15.78%	0.52%	—
Long-term equity investments	**2,557,061.01**	**0.04%**	2,663,518.90	0.04%	0.00%	—
Fixed assets	**2,726,157,716.13**	**47.53%**	2,915,815,731.99	44.13%	3.40%	Mainly attributable to the depreciation made during the period.
Construction in progress	**55,034,853.27**	**0.96%**	35,871,296.86	0.54%	0.42%	Mainly attributable to the un□nished installation of certain imported equipment during the period.
Short-term borrowings	**1,929,510,883.39**	**33.64%**	2,390,918,560.77	36.18%	–2.54%	Mainly attributable to the change of bank □nancing business type from differences on bank acceptance discounting to working capital loans.
Long-term borrowings			426,219,050.90	6.45%	–6.45%	Mainly attributable to the transfer to non-current liabilities due within one year.
Contract liabilities	**32,463,654.22**	**0.57%**	57,364,400.72	0.87%	–0.30%	Mainly attributable to the increase in receipts in advance as at the end of the period.
Tax Payable	**13,393,461.51**	**0.23%**	81,227,045.72	1.23%	–1.00%	Mainly attributable to the decrease in taxes realised as at the end of the period.
Non-current liabilities due within one year	**482,636,906.78**	**8.41%**	308,994,908.08	4.68%	3.73%	Mainly attributable to the transfer from long-term borrowings.

2. A e and liabili ie mea ed a fai al e

☐ Applicable ✓ Not Applicable

3. Re ic ion on a e igh a a he end of he e o ing e iod

Unit: RMB

I em	Book al e a a he end of he ea	Rea on( ) fo he e ic ion
Monetary funds	**241,381,313.10**	Security deposits
Bills receivable	**182,247,328.78**	Pledge of bills
Accounts receivable	**11,229,883.37**	Borrowings from factoring of accounts receivable
Fixed assets	**254,227,744.48**	Pledge for borrowings
Intangible assets	**92,645,480.39**	Pledge for borrowings
To al	**781,731,750.12**	—

V. Analysis of investments

1. Gene al

☐ Applicable ✓ Not Applicable

2. Signi can e i in e men ac i ed d ing he e o ing e iod

☐ Applicable ✓ Not Applicable

3. Signi can non-e i in e men in og e d ing he e o ing e iod

☐ Applicable ✓ Not Applicable

4. Financial a e mea ed a fai al e

☐ Applicable ✓ Not Applicable

5. U e of ai ed f nd

☐ Applicable ✓ Not Applicable

The Company did not use any raised funds during the reporting period.

VI. Material disposals of assets and equity interests

1. Di ,o al of ignik can a e

☐ Applicable ✓ Not Applicable

The Company did not dispose of any signi□cant assets during the reporting period.

2. Di ,o al of ignik can e i in e e

☐ Applicable ✓ Not Applicable

VII. Analysis of major controlled and invested companies

✓ Applicable ☐ Not Applicable

Major subsidiaries and invested companies having impact on the Company's net pro□t by more than 10%

Unit: RMB

Name of com,an	T ,e of com,an	P inci,al b ine	Regi e ed ca,i al	To al a e	Ne a e	O,e a ing e en e	O,e a ing ,ok	Ne P ok
Shouguang Baolong	Subsidiary	Production and sale of oil equipment	RMB150 million	977,593,354.71	(40,643,434.47)	2,429,768,366.38	(76,318,223.88)	(74,793,250.02)

>.tioioioioioi(Mhai 7.861 1.-2584)-1677(Pr)18(oductManufComu 10)]TJ million

De c, f a c ed a d e ed c, a e

One controlled subsidiary, Shandong Molong Energy Technology Co., Ltd. ("Molong Energy"), was consolidated into the combined nancial statements of the Company for the reporting period. Molong Energy was granted its business licence on 13 March 2019, with a registered capital of RMB10 million. It is interested by Shandong Molong as to 51% and by 山東鴻進能源管理有限公司 (Shandong Hongjin Energy Management Co., Ltd.) as to 49%. The business scope of Molong

Energy industry is a pillar industry to China's economy. In the 13th Five-Year Plan, the Chinese government clearly stressed on expanding rooms for industry development, supporting the development of high-end equipment industry and new energy industry, and supporting the transformation and upgrade of traditional industries. The Company persists on a customer-centered and market-oriented approach. With a key focus on developing and selling high-end, precision and advanced new products, the Company will capitalize on its industry strengths to strengthen the research and development of technology and service capability, form an economical, efficient, state-of-the-art and eco-friendly industry chain and develop a circular economy, with an aim at becoming an internationally renowned energy equipment manufacturer and service provider, so as to achieve steady and sustainable development of the Company.

(II) Business Plan of the Company for 2020:

1. Brand management

The Company will take market demand as the guidance to improve product quality, develop a system for developing and cultivating high value-added products such as non-API standard, high-end casting products, establish brand image for new products in the course of the Company's strategic transformation, increase the market share of its new products, and enhance brand value of the Company.

2. Research and development of technology

The Company will standardise the process for research and development of new products, fully perform market research and docking, improve the efficiency of research and development of new products and get prepared for marketing initiatives in order to achieve seamless connection among research and development, trial production, and marketing. The Company will also strengthen collaboration with scientific research institutes and tertiary schools. With the focus on the technology of the Company, led by the furnace rehabilitation business unit and leveraging on the technological advantages of tertiary schools and scientific research institutes and the advanced equipment of Shouguang Maolong, the Company will endeavor to promptly implement process testing, development and design, so as to lay a solid foundation for the application of new products and new technology in the future.

3. Quality control

The Company will further improve the quality control system and the inspection mechanism, strengthen the process quality control at early stages of production, strengthen the quality control and assessment of the upper and lower stages. With goals of meeting customers' needs and minimising its loss, the Company will raise the quality awareness of managers at all levels, so as to truly achieve full engagement and full supervision. The Company will make full use of quality inspection and testing equipment and internal and external professionals to enhance the standard of quality control, safeguard the quality of products, emphasising on the quality control in the course of research and development of new products, and promptly formulate process and standards for product inspection, to ensure the quality risks are controlled at source.

4. Safety production

In the production system, the Company will implement strict safety environmental protection and production management, continually improve the safety production management system, strengthen basic management and further define job responsibilities. The Company will focus on efficiency management, optimise product structure, produce high value-added products. Moreover, the Company will further enhance the business skills of staff and provide training for mastering production operation, cost accounting, product quality and other knowledges. The Company will continue to offer training and learning sessions regarding safety for all staff member in order to enhance their awareness and ability in safety precaution. The Group will strengthen the operation and management of eco-friendly facilities, and strictly perform investigation, rectification and assessment of hidden dangers.

5. Ma ke ale

Adhering to the "pro□t-centered, market supervision-guided" sales philosophy, the Company will capitalise on the sales network of its sales companies, perform market research and collect real-time information on market demand, and leverage on its strengthen in technology, production and sales, to speed up the research and development and promotion of high-end, precision and advanced products, increase the order volume and production capacity of high value-added products, procure the prompt formation of diversi□ed product structure, so as to develop competitive products, expand the market share and popularity of its products and enhance the core competitiveness of the Group.

6. Financial managemen

The Company will further strengthen its financing management by broadening financing channels and reducing □nancial expenses, to ensure the safety of it funds. The Company will continue to strengthen the training of the business knowledge of □nancial staff and improve their professional skills. The Company will re□ne the cost accounting and pro□t accounting system of workshops, make full use of the ERP system, determine cost control benchmarks, to strengthen the control of cost and income and expenditures between subsidiaries. The Company will also strengthen the accounting and supervision practices, and fortify the □nancial analysis functions, in order to provide accurate basis for the decision-making of its management.

7. H man e o ce

Adhering to the "going out and recruiting in" concept, the Company will put its focus on strengthened cultivation or recruitment of professional, technical, and highly educated talents, to establish junior talent reserve and echelon construction. The Company will further increase employees' satisfaction and offer them with better bene□t packages, cultivation and retention. The Company will establish a sound remuneration and labor security system, employ and educate staff in a scienti□c manner, and shoulder social responsibility. The Company will continuously improve its sales services and management team, make good manpower deployment according to the needs of sales business in a timely manner. The Company will also enhance the knowledge and skills of sales personnel by such ways as business training and management training.

(III) Majo i k fac o fo f e de elo,men a eg and b ine goal of he Com,an :

(1) Ma ke i k

The Company operates in energy equipment and service industry which is directly relevant to the development and prosperity of the energy industry. The □uctuations of crude oil price are affected by global economic growth rate, regional, political, □nancial, supply and demand and many other factors, and have strong cyclicality and volatility. At the time when oil prices are low, oil and gas companies will accordingly reduce capital expenditures, make less exploration and development investment and have lower demand for equipment and services in the oil and gas industry. The Company will adjust product structure and market setting in a timely manner according to market changes.

(2) Ra ma e ial , ice c a ion i k

Any □uctuations in raw material prices will directly affect the manufacturing costs of products and will, in turn, have direct impact on product prices. The Company will closely monitor if there is any □uctuation in raw material prices and will control the manufacturing costs of products by ways such as □xing raw material prices, and adjust the product prices and product mix in a timely manner as and when necessary.

(3) Polic i k

In recent years, the PRC has continuously raised environmental protection requirements, and environmental protection policies have become more frequently issued and stricter. Environmental protection supervision has been continuously implemented. The improvement of emission standards is bound to increase the Company's environmental protection related costs. The Company has always been aiming at "energy saving, emission reduction and harmonious development", vigorously pursuing circular economy, maximising resource utilization, and increasing environmental protection investment to ensure the waste discharges of the Company is up to standards.

(4) E change a e i k

Any changes in the RMB exchange rate have impact on the Company's operating results. The Company will closely monitor the changes in exchange rates and will take timely measures to avoid any risks caused by changes in the RMB exchange rate.

X. Meeting with researchers, communication and interview activities

1. Ac i i egi a ion fo m fo mee ing i h e ea che , comm nica ion and in e ie d ing he e o ing e iod

☐ Applicable ✓ Not Applicable

There is no activity of meeting with researchers, communication and interview for the Company during the reporting period.

XI. Disclosures in accordance with the Listing Rules of the SEHK

1. Re l

The Group's revenue and the nancial positions of the Group and of the Company for 2019 are set out in the nancial statement contained in the "Financial Statements" section of this report.

2. Financial Highligh

A summary of the results and of the assets and liabilities of the Group for the past ve nancial years is as follows:

Re l

	Fo he ea ended 31 Decembe				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total operating revenue	**4,388,904**	4,452,015	2,965,217	1,531,118	1,613,918
Operating (loss)/pro t	**(189,049)**	69,123	45,588	(605,538)	(323,778)
Total (loss)/pro t	**(215,227)**	61,163	34,488	(599,486)	(298,473)
Net pro t/(loss)	**(224,908)**	102,406	35,081	(650,706)	(286,499)
Minority interests	**(28,599)**	9,930	(2,957)	(38,229)	(26,934)
Net (loss)/pro t attributable to shareholders of the parent company	**(196,309)**	92,476	38,038	(612,476)	(259,565)
Basic (loss)/earnings per share (RMB)	**(0.25)**	0.12	0.05	(0.77)	(0.33)

A e and Liabili ie

	Fo he ea ended 31 Decembe				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**5,735,752**	6,607,537	6,222,803	5,772,043	5,851,181
Total liabilities	**3,946,793**	4,593,377	4,291,470	3,886,376	3,313,096
Net assets	**1,788,960**	2,014,160	1,931,333	1,885,667	2,538,085

3. Change in Sha e Ca i al

Details of changes in the share capital of the Company for 2019 are set out in note (VII) to the nancial statements.

4. Re e e and Di ib able Re e e

Details of changes in the reserves and distributable reserves of the Group for 2019 are set out in note (VII) to the nancial statements.

5. P o e , Plan and E i men

Details of changes in the property, plant and equipment of the Group for 2019 are set out in note (VII) to the nancial statements.

6. Ca i ali ed In e e

During 2019, the Group capitalised interests of RMB nil.

7. Di ec o ' and S e i o ' Se ice Con ac o Le e of A oin men

Each of the Directors and Supervisors (including the independent non-executive Directors and the Supervisors) has entered into a service contract or letter of appointment with the Company. None of the Directors or Supervisors has entered into any service contracts with the Company which is not determinable by the Company within one year without payment compensation (other than statutory compensation).

8. S ecial Commi ee

Details of the Strategy Committee, the Nomination Committee, the Audit Committee and the Remuneration Committee established under the Board are set out in the "Corporate Governance" section of this report.

9. Con in ing Connec ed T an ac ion

The Company did not have any connected transaction during the reporting period.

10. Di ec o ', S e i o ' and Chief E ec i e' In e e in Sec i ie nde he Sec i ie and F e O dinance of Hong Kong

As at 31 December 2019, interests of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be noti□ed to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be noti□ed to the Company and to the Stock Exchange, were as follows:

Long o i ion in he Sha e of he Com an

Name	T e of in e e	N mbe of A ha e	Pe cen age of A ha e	Pe cen age o o al egi e ed ha e ca i al
Liu Yun Long	Bene□cial interest	2,500	0.0004%	0.0003%
Wang Quan Hong	Bene□cial interest	139,500	0.03%	0.02%

Except as disclosed above, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, the Supervisors or chief executive had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be noti□ed to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be noti□ed to the Group and to the Stock Exchange.

11. Ann al Com en a ion of he Di ec o , S e i o and Senio Managemen

For details of compensations of the current directors, supervisors and senior management paid by the Company in 2019, please refer to the "Directors, Supervisors, Senior Management and Employees" section of this report.

12. Di ec o ' and S e i o ' Righ o Ac i e Sha e o Deben e

None of the Directors or Supervisors of the Company or any of their respective associates (as de□ned under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any right to acquire bene□ts by means of the acquisition of shares in or debentures of the Company or had exercised any such right in 2019.

13. Sha e O ion Scheme

The Company does not operate any share option scheme.

14. S b an ial Sha eholde

Details are set out in the "Changes in Shares and Shareholders" section of this annual report.

15. Di ec o ' and S e i o ' Ma e ial In e e in T an ac ion , A angemen o Con ac

There were no transactions, arrangements or contracts of signi□cance to the business of the Group and in which any of the Directors or Supervisors had a material interest, whether directly or indirectly, subsisted at the end of 2019 or at any time in 2019.

16. Ma e ial Con ac

No contract of significance has been entered into between the Company (or any of its subsidiaries) and the controlling shareholders of the Company (or any of their subsidiaries), and no contract of signi□cance for the provision of services to the Company (or any of its subsidiaries) by any of the controlling shareholders of the Company (or any of their subsidiaries) has been entered.

17. P cha e, Sale o Redem ion of Sec i ie

None of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during 2019.

18. P e-em i e Righ

There is no provision for pre-emptive rights under the articles of association of the Company or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

19. Co o a e Go e nance

The principal Codes on Corporate Governance adopted by the Company are set out in the "Corporate Governance" section of this report.

20. S fkcienc of P blic Floa

According to information publicly available to the Company and to the best knowledge of the Directors, the Directors con□rmed that the Company has maintained a suf□cient public □oat throughout the current year and up to the date of this report.

21. Gea ing a io

The Group's gearing ratio was approximately 68.81% (2018: approximately 69.52%) which is calculated based on the Group's total liabilities of approximately RMB394,679 ten thousand (2018: approximately RMB459,338 ten thousand) and total assets of approximately RMB573,575 ten thousand (2018: approximately RMB660,754 ten thousand).

22. B ine Re ie

Ke knancial and b ine e fo mance indica o

Key □nancial and business performance indicators comprise pro□tability growth, return on equity and gearing ratio. Details of the analysis are set out in the section titled "Management Discussion and Analysis" of this annual report.

Ri k Managemen

It is a development strategy of the Group to establish a risk management system covering all the business segments that monitors, assesses and manages various risks in the Group's activities. The management has identi□ed the major risks of the Group and regularly reviews its exposure to industry, policy, operational and currency risks.

S ainabili Ini ia i e

The Group has been committed to contributing to the sustainability of the environment and maintaining a high standard of corporate social governance essential for creating a framework for motivating staff and promoting sustainable relationships with customers, suppliers, service vendors, regulators and shareholders, and contributes to the community in which we conduct our businesses for creating a sustainable return to the Group. The Group has implemented energy saving practices in of□ces and branch premises where applicable.

We have compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all signi□cant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Company is aware, it has complied in material aspects with the relevant laws and regulations that have a signi□cant impact on the business and operation of the Company and its subsidiaries.

23. Signi can In e men

During the year ended 31 December 2019, the Group did not have any signi□cant investments.

I. Profit distribution for the ordinary shares of the Company and conversion of capital reserves into share

Pro□t distribution for the ordinary shares, especially the formulation, implementation or adjustment of cash dividend during the reporting period

☐ Applicable ✓ Not applicable

The proposals on dividend distribution for ordinary shares and conversion of capital reserves into share capital in the past three years (the reporting period inclusive)

In the past three years, the Company did not implement any proposals on dividend distribution for ordinary shares or proposals on conversion of capital reserves into share capital.

Ca h di idend of he o dina ha e fo he la h ee ea (he e, o ing, e iod incl i e)

Unit: RMB

Yea of di ib ion	Amo n of ca h di idend (incl ding a)	Ne , ok a ib able o o dina ha eholde of he li ed Com, an , e con olida ed a emen fo he ea of di ib ion	Pe cen age of amo n of ca h di idend o ne , ok a ib able o o dina ha eholde of he li ed com, an , e con olida ed a emen	Amo n of ca h di idend in o he fo m (ch a e, cha e of ha e)	Pe cen age of amo n ca h di idend in o he fo m o ne , ok a ib able o o dina ha eholde of he li ed com, an , e con olida ed a emen	Amo n of ca h di idend (incl ding o he fo m)	Pe cen age of amo n of ca h di idend (incl ding o he fo m) o ne , ok a ib able o o dina ha eholde of he li ed com, an , e con olida ed a emen
2019	0.00	(196,309,267.90)	0.00%	0.00	0.00%	0.00	0.00%
2018	0.00	92,476,375.01	0.00%	0.00	0.00%	0.00	0.00%
2017	0.00	38,038,484.18	0.00%	0.00	0.00%	0.00	0.00%

The Company generated pro□t and the parent company generated positive distributable pro□t for ordinary shareholders during the reporting period but no cash dividend distribution proposal was presented during the reporting period

☐ Applicable ✓ Not applicable

II. Profit distribution and conversion of capital reserves into share capital during the reporting period

☐ Applicable ✓ Not applicable

The Company has no plan to distribute cash bonus, no issuance of bonus share and no capital reserve capitalisation.

III. Performance of commitment

1. Unde aking made b a ie in ol ed in nde aking incl ding he Com an ' bene cial con olle , ha eholde , ela ed a ie , bidde and he Com an d ing he e o ing e iod o io e iod b b i ing o he end of he e o ing e iod

☐ Applicable ✓ Not applicable

During the reporting period, there was no undertaking made by parties involved in undertakings including the Company's bene□cial controllers, shareholders, related parties, bidders and the Company during the reporting period or prior periods but subsisting to the end of the reporting period.

2. Co o a e a e o ojec ha ofi fo eca , and ill in he e iod of he o fo eca a e o ing e iod. E lana ion fo o fo eca of co o a e a e o ojec ecei e o fo eca i ea on

☐ Applicable ✓ Not applicable

IV. Non-operating capital of the listed company by the controlling shareholder and its related parties

☐ Applicable ✓ Not applicable

There is no non-operating capital of listed company by controlling shareholder and related parties of the Company during the reporting period.

V. Explanation for Board, Supervisory Committee and independent Director (if any) regarding the "modified auditor's report" for the current period by the accounting firm

☐ Applicable ✓ Not applicable

VI. Explanation for the change in accounting policy, accounting estimate and accounting method as compared to the financial report of last year

☐ Applicable ✓ Not applicable

During the reporting period, there were no changes in the accounting policies, accounting estimates and accounting methods of the Company.

VII. Explanation for major accounting errors correction that need to trace the restatement

☐ Applicable ✓ Not applicable

No major accounting errors correction needs to trace the restatement during the reporting period.

VIII. Explanation for the change of the consolidated statements range as compared to the financial report of last year

✓ Applicable ☐ Not applicable

One controlled subsidiary, Shandong Molong Energy Technology Co., Ltd. was consolidated into the combined financial statements of the Company for the reporting period.

Molong Energy was granted its business licence on 13 March 2019, with a registered capital of RMB10 million. It is interested by Shandong Molong as to 51% and by 山東鴻進能源管理有限公司 (Shandong Hongjin Energy Management Co., Ltd.) as to 49%. The business scope of Molong Energy covers: energy management services; new energy promotion, technical services and technical consultancy; investment and construction of gas pipeline network projects; supply of urban gas; sale of gas equipment; installation and repair of gas equipment; development and sale of real properties; property leasing. As at the disclosure date of this report, Molong Energy has not yet commenced any business.

IX. Appointment, dismissal of accounting firm

The accounting firm currently appointed

Name of the domestic accounting firm	Shinewing Certified Public Accountants Ltd. (Special General Partner)
Compensation of the domestic accounting firm (Unit: RMB'0,000)	135
Continued term of service of the domestic accounting firm	7
Name of CPA of the domestic accounting firm	Kan Jing Ping, Zhang Xiu Qin
Continued term of service of certified public accountants of the domestic accounting firm	3, 5
Name of the foreign accounting firm (if any)	Not applicable
Continued term of service of the foreign accounting firm (if any)	Not applicable
Name of certified public accountant of the foreign accounting firm (if any)	Not applicable
Continued term of service of certified public accountant of the domestic accounting firm (if any)	Not applicable

Whether change appointed accounting firm during reporting period

☐ Yes ✓ No

Engagement of accounting firm, financial consultant or sponsor for a different internal control

☐ Applicable ✓ Not applicable

X. Suspension of listing and termination of listing after disclosure of annual report

☐ Applicable ✓ Not applicable

XI. Matter related to bankruptcy and reorganization

☐ Applicable ✓ Not applicable

There is no matter related to bankruptcy and reorganisation during the reporting period.

XII. Significant lawsuit and arbitration

✓ Applicable ☐ Not applicable

Ba ic info ma ion abo li iga ion (a bi a ion)	Amo n in ol ed (RMB'0,000)	Will e ima ed liabili be inc ed o no	P og e of li iga ion (a bi a ion)	J dgmen e l of he li iga ion (a bi a ion) and i im, ac	J dgmen e ec ion of he li iga ion (a bi a ion)	Di clo e da e	Di clo e inde
Investor lawsuits	8,841.48	Yes	(For details, please refer to XIV.2 "Contingencies" in Section X of this report)	The Company has made provisions of estimated liabilities for the lawsuits.	The Company is in the process of paying claims in respect of the closed cases.	—	http://www.cninfo.com.cn

XIII. Punishment and rectification

☐ Applicable ✓ Not applicable

There was no punishment or recti□cation during the reporting period.

XIV. Integrity of the Company and its controlling shareholders and de facto controllers

☐ Applicable ✓ Not applicable

XV. Implementation of the stock incentive plan, employee shareholding plan or other employee incentive measure of the Company

☐ Applicable ✓ Not applicable

There was no stock incentive plan, employee shareholding plan or other employee incentive measure and its implementation during the reporting period.

XVI. Significant related party transactions

1. Rela ed ,a an ac ion a ocia ed i h he da - o-da o,e a ion

☐ Applicable ✓ Not applicable

The Company did not conduct any related party transaction in the ordinary course of business during the reporting period.

2. Rela ed ,a an ac ion in connec ion i h , cha e o ale of a e o e i

XVII. Significant contracts and their implementation

1. En men , Con ac ing and lea ing

(1) En men

☐ Applicable ✓ Not applicable

The Company had no entrustment during the reporting period.

(2) Con ac ing

☐ Applicable ✓ Not applicable

The Company had no contracting during the reporting period.

(3) Lea ing

☐ Applicable ✓ Not applicable

The Company had no leasing during the reporting period.

2. Signi can g a an ee

☐ Applicable ✓ Not applicable

The Company had no guarantee during the reporting period.

3. En o he o manage ca h a e

(1) En ed eal h managemen

✓ Applicable ☐ Not applicable

Pa ic la of en ed eal h managemen d ing he e o ing e iod

Unit: RMB'0,000

S ecik c e	So ce of f nd fo en ed eal h managemen	N mbe fo en ed eal h managemen	O anding balance	The amo n d e b no ecei ed
Wealth management products of banks	Self-owned capital	14,671	0	0
Total		14,671	0	0

Pa ic la of high- i k en ed eal h managemen i h indi id all ignik can o lo - ec i , lo -li idi and non- inci al o ec ed od c

☐ Applicable ✓ Not applicable

E ec ed i eco e able inci al o o he o en ial im ai men in en ed eal h managemen

☐ Applicable ✓ Not applicable

(2) Pa ic la of en ed loan

☐ Applicable ✓ Not applicable

The Company had no entrusted loans during the reporting period.

4. O he ignik can con ac

☐ Applicable ✓ Not applicable

The Company had no other signi□cant contracts during the reporting period.

XVIII. Social Responsibility Report

1. Pe fo ming ocial e on ibili

During the reporting period, the Company attached great importance to the performance of social responsibility, and has taken a proactive stance in ful□lling social responsibility which was epitomised in the following aspects:

1. Safeg a ding ha eholde ' in e e

The Company had established a relatively well-established governance structure and a comprehensive internal control system. Such measures guaranteed the soundness and the level of control of the decision making mechanism of the Company on material issues. At general meetings, the Company adopted both on-the-spot plus online voting to enhance the participation of shareholders. The assembly, convention and voting procedures of the meeting complied with the requirements of the laws, regulations and the Articles of Association. The Company established various forms of communication platforms and channels with the investors through different measures and conducted timely, true, accurate and comprehensive regular information disclosure in strict compliance with the relevant laws, regulations, the Articles of Association and the requirements of the relevant system of the Company in order to ensure that all shareholders of the Company were given fair, just, open and adequate opportunities to acquire the information of the Company, which is aim at protecting various legal rights of all shareholders as stipulated by the laws, regulations and articles in a fair manner.

2. Safeg a ding em lo ee ' in e e

The Company highly emphasized the nurture of talents. We strived to improve the quality of our staff and realized mutual growth of our staff and the enterprise by offering our staff with career planning and organising various corporate training. The Company offered various social insurance to our staff and established relief fund to care and support staff in difficult times and created a harmonious working environment. In 2019, the Company released a total of RMB49,000 from the relief fund to give support to employees having family dif□culties.

3. Ac i el a ici a ing in ocial nde aking

The Company paid great attention to the creation of social value and placed our focus of ful lling social responsibility on actively participating in social services. We have spared no effort to join social undertakings and charity activities and organize numerous donations with a view to rewarding the society within our capacity. In August 2019, some areas in Shouguang City were seriously damaged by a major ood disaster due to Typhoon Lekima. The Company actively organised and started ood relief operation by, in no time, setting up a Molong temporary voluntary rescue team responsible for coordinating and equipping the rescue facilities and supplies. The Company together with all staff member raised RMB1.2 million of donation money and supplies for the disaster relief, rescue and post-disaster reconstruction of Shouguang City. The Company received recognition and praises from the society for these initiatives.

2. F llmen of ocial e on ibili ega ding a ge ed o e alle ia ion

During the reporting period, the Company had no targeted e poverty alleviation activity, and also no subsequent targeted poverty alleviation plan.

3. Info ma ion ela ing o en i onmen al ٫ o ec ion

Whether or not the listed company and its subsidiaries are among a list of major entities discharging pollutants released by environmental protection departments

Yes

The Com٫an o name of b idia	Name of majo ٫oll an and ٫ecik٫c ٫oll an	Di cha ge me hod	N mbe of di cha ge o le	Di ib ion of di cha ge o le	Di cha ge concen a ion	Im٫lemen ed anda d fo ٫oll an di cha ge	To al ol me of di cha ge	A٫٫o ed o al ol me of di cha ge	E ce i e di cha ge
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	6.00mg/m^3	100mg/m^3	0.32 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	18.0mg/m^3	150mg/m^3	3.77 tonnes	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	7.20mg/m^3	15mg/m^3	0.41 tonne	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	1.48mg/m^3	100mg/m^3	1.02 tonnes	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	16.0mg/m^3	150mg/m^3	11.18 tonnes	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	1.18mg/m^3	15mg/m^3	0.68 tonne	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	12.0mg/m^3	100mg/m^3	0.72 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	125.0mg/m^3	150mg/m^3	12.96 tonnes	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	7.70mg/m^3	15mg/m^3	1.37 tonnes	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	14.0mg/m^3	100mg/m^3	1.73 tonnes	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	66.0mg/m^3	150mg/m^3	7.92 tonnes	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	4.50mg/m^3	15mg/m^3	0.55 tonne	—	No
Shandong Molong	Benzene	Organised	1	Production complex	2.06mg/m^3	5mg/m^3	20.31 kilograms	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0	25mg/m^3	0	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0	40mg/m^3	0	—	No
Shandong Molong	Non-methane total hydrocarbons	Organised	1	Production complex	1.42mg/m^3	50mg/m^3	14.01 kilograms	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0.03mg/m^3	5mg/m^3	0.26 kilogram	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0	25mg/m^3	0	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0	40mg/m^3	0	—	No
Shandong Molong	Non-methane total hydrocarbons	Organised	1	Production complex	3.09mg/m^3	50mg/m^3	27.7 kilograms	—	No
Shandong Molong	Benzene	Organised	1	Production complex	1.30mg/m^3	5mg/m^3	2.43 kilograms	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0.34mg/m^3	25mg/m^3	0	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0	40mg/m^3	0	—	No
Shandong Molong	Non-methane total hydrocarbons	Organised	1	Production complex	8.79mg/m^3	50mg/m^3	62.75 kilograms	—	No
Shouguang Maolong	Sulfur dioxide	Organised	1	Production complex	31.3 mg/m^3	80mg/m^3	24.84 tonnes	—	No
Shouguang Maolong	Nitrogen oxides	Organised	1	Production complex	23.5mg/m^3	300mg/m^3	9.01 tonnes	—	No
Shouguang Maolong	Fine dust	Organised	1	Production complex	1.43mg/m^3	15mg/m^3	0.96 tonne	—	No
Shouguang Baolong	Fine dust	Organised	1	Production complex	2.42mg/m^3	10mg/m^3	12.12 tonnes	—	No
Shouguang Baolong	Fine dust	Organised	1	Production complex	1.27mg/m^3	10mg/m^3	212.6 kilograms	—	No

Con c ion and O e a ion of Poll ion P e en ion and Con ol Facili ie

Wastewater treatment facilities: The Company has equipped production lines in all production complexes with integrated sewage treatment facilities which have been in normal operation. Wastewater discharged from production process is treated and recycled.

Exhaust treatment facilities: The Company has equipped production lines in all production complexes with denitration and electrostatic/electric precipitator and fabric lter, to ensure effective treatment and discharge of exhausts and ne dusts generated from the production process.

En i onmen al Im ac A e men of Con c ion P ojec and O he Admini a i e Pe mi ion fo En i onmen al P o ec ion

The Company strictly complied with the requirements of the environmental laws and regulations to carry out environmental impact assessment of contraction project. The construction projects have all passed the environmental impact assessment procedures and been accepted by the relevant competent authorities, and ling procedures have been carried out. The Company's pollutants discharge permits were all valid.

Eme genc Plan fo S dden En i onmen al Inciden

Each of the Company and its subsidiaries has engaged a quali ed rm to prepare its emergency plans for sudden environmental incidents, which have been led to environment authorities after reviewed by experts. The Company and its subsidiaries has also organised trainings and drills to rectify the problems in the area of emergency management, so as to strengthen the control of environmental risks.

En i onmen al Self-moni o ing P og am

During the reporting period, the Company and its subsidiaries worked closely with local environmental inspection departments on periodic supervisory inspections, and engaged third party inspection firms to monitor their discharge statistics on an irregular basis, with an aim to meet industry standards and requirements of local environmental authorities. Monthly sample testing on the related environmental statistics, supervision on stable operation of wastewater and exhaust treatment facilities are conducted to effectively enhance the management of internal discharge of wastewater and exhaust. In 2019, the Company invested in 4 additional sets of monitoring equipment, which have already connected with the platform of government, to ensure the discharge of pollutants is up to standard.

O he di clo eable en i onmen al info ma ion

The Company had no other discloseable environmental information.

O he en i onmen all ela ed info ma ion

The Company had no other environmentally related information.

XIX. Explanation for other matters of significance

☐ Applicable ✓ Not applicable

The Company had no explanation for other matters of signi cance during the reporting period.

XX. Significant events of subsidiaries of the Company

✓ Applicable ☐ Not applicable

1. Change of name, [illegible]e and b[illegible]ine co[illegible]e of a[illegible] b idia

On 25 September 2019, in light of the need for business development and business management, Shouguang Maolong Microcredit Loan Co., Ltd. (壽光市懋隆小額貸款股份有限公司) made changes to its company name, type and business scope. Therefore, the company was renamed as 壽光市寶隆管理諮詢有限公司 (Shouguang Baolong Management and Consultancy Co., Ltd.). (Announcement number 2019-024)

2. De egi[illegible]a ion of[illegible] b idia ie

On 29 October 2019, the Company held the fifth meeting of the sixth session of the Board, at which the "resolution regarding the deregistration of a wholly owned subsidiary" was passed, which proposed to collectively dispose of 壽光市懋隆廢舊金屬回收有限公司 (Shouguang Maolong Old Metals Recycle Co., Ltd.) and 文登市寶隆再生資源有限公司 (Wendeng Baolong Recyclable Resource Co., Ltd.), both subsidiaries of the Company, by liquidation and deregistration. (Announcement number 2019-029)

On 24 December 2019, the Company received a notice from the Administrative Examination and Approval Service Bureau under the Administration for Market Regulation of Wendeng District of Weihai City, regarding the grant of deregistration approval and completion of the related deregistration procedures for Wendeng Baolong. On 18 February 2020, the Company received a notice from the Administrative Examination and Approval Service Bureau of Shouguang City, regarding the grant of deregistration approval and that the deregistration procedures for Maolong Recycle were completed. (Announcement number 2019-033 and 2020-002)

I. Changes in Share Capital

1. Change in Sha e

Unit: share

	P io o he change		Inc ea e/dec ea e a a e l of he change (+,)					Af e he change	
	N mbe of ha e	Pe cen age	Ne i e of ha e	Bon i e	T an fe f om ca,i al e e e	O he	S b o al	N mbe of ha e	Pe cen age
I. Sha e bjec o lock- ,	194,150,250	24.33%	0	0	0	(194,043,750)	(194,043,750)	106,500	0.01%
1. State-owned shares	0	0.00%	0	0	0	0	0	0	0.00%
2. State-owned legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
3. Other domestic shares	194,150,250	24.33%	0	0	0	(194,043,750)	(194,043,750)	106,500	0.01%
Including: Domestic legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
Domestic natural person shares	194,150,250	24.33%	0	0	0	(194,043,750)	(194,043,750)	106,500	0.01%
4. Foreign shares	0	0.00%	0	0	0	0	0	0	0.00%
Including: Overseas legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
Overseas natural person shares	0	0.00%	0	0	0	0	0	0	0.00%
II. Sha e no bjec o lock- ,	603,698,150	75.67%	0	0	0	194,043,750	194,043,750	797,741,900	99.99%
1. RMB ordinary shares	347,571,750	43.56%	0	0	0	194,043,750	194,043,750	541,615,500	67.88%
2. Domestically-listed foreign shares	0	0.00%	0	0	0	0	0	0	0.00%
3. Overseas-listed foreign shares	256,126,400	32.10%	0	0	0	0	0	256,126,400	32.10%
4. Others	0	0.00%	0	0	0	0	0	0	0.00%
III. To al n mbe of ha e	797,848,400	100.00%	0	0	0	0	0	797,848,400	100.00%

Reason(s) for change in shares

✓ Applicable ☐ Not applicable

As at the end of the reporting period, the original term of directorship of the original chairman Mr. Zhang En Rong and an original director Mr. Zhang Yun San expired for six months. In accordance with the requirements under the SZSE, the shares held by them subject to lock-up therefore changed from lock-up shares of senior management to shares not subject to lock-up, which involved 194,043,750 shares.

Approval for the change in shares

☐ Applicable ✓ Not applicable

Transfer for the change in shares

☐ Applicable ✓ Not applicable

Status of share buy-backs

☐ Applicable ✓ Not applicable

Status of reduction of repurchased shares through centralised bidding

☐ Applicable ✓ Not applicable

Effects of the change in shares on □nancial indicators such as basic earnings per share, diluted earnings per share and net assets attributable to ordinary shareholders of the Company per Share for the most recent year and period

☐ Applicable ✓ Not applicable

Other disclosures where were considered necessary by the Company or required by securities regulatory authorities

☐ Applicable ✓ Not applicable

2. Change in locked- ha e

✓ Applicable ☐ Not applicable

Unit: share

Name of ha eholde	Lock- ha e a he beginning of he e iod	Inc ea ed d ing he e iod	Relea ed d ing he e iod	Lock- ha e a he end of he e iod	Rea on( ) fo lock-	Da e of elea e f om lock-
Zhang En Rong	176,712,750	0	176,712,750	0	Being the lock-up shares of senior management, as the term of original directorship expired for six months, those shares were released from lock-up in accordance with the relevant requirements.	2019-12-28
Zhang Yun San	17,331,000	0	17,331,000	0	Being the lock-up shares of senior management, as the term of original directorship expired for six months, those shares were released from lock-up in accordance with the relevant requirements.	2019-12-28
Total	194,043,750	0	194,043,750	0	—	—

II. Issuance and listing of securities

1. Sec i ie i ance (e cl i e of ,r efe ed ock) d ing he e,o ing ,e iod

☐ Applicable ✓ Not applicable

2. E ,lana ion fo he change in o al ha e of he Com,an and ha eholding c e and mo emen in he a e and liabili c e of he Com,an

☐ Applicable ✓ Not applicable

3. E i ing in e nal aff ha e condi ion

☐ Applicable ✓ Not applicable

III. Profiles of the shareholders and actual controller

1. N mbe of co ,o a e ha eholde and ha eholding condi ion

Unit: share

Total number of ordinary shareholders at the end of reporting period	35,460 (of which 35,415 were for A shares and 45 were for H shares)	Total number of ordinary shareholders at last end of month before the annual report disclosure day	33,909 (of which 33,864 were for A shares and 45 were for H shares)	Total number of voted recovery preferred stockholder at the end of reporting period (if any) (see Note 8)	0	Total number of voted recovery preferred stockholder at last end of month before the annual report disclosure day (if any) (see Note 8)	0

Name of ha eholde	Sha eholde holding mo e han 5% of he ha e o Na e of ha eholde	Pe cen age of ha eholding	N mbe of ha e held a he end of e o ing e iod	ha eholding of he o en ha eholde Inc ea e/ dec ea e in he e o ing e iod	N mbe of lock- ha e held	N mbe of non-lock ha e held	Pledged o f o en S a of ha e	N mbe of ha e
HKSCC Nominees Limited	Overseas legal person	30.92%	246,705,390	(66,000)	0	246,771,390	—	—
Zhang En Rong	Domestic natural person	29.53%	235,617,000	0	0	235,617,000	Pledged	187,617,000
Zhang Yun San	Domestic natural person	4.03%	32,168,400	0	0	32,168,400	—	—
Lin Fu Long	Domestic natural person	3.28%	26,162,000	0	0	26,162,000	—	—
Central Huijin Asset Management Co., Ltd	State-owned legal person	1.70%	13,536,100	0	0	13,536,100	—	—
Ronghe Phase II private securities investment fund of Shenzhen Qianhai Jingwei Ronghe Asset Management Co., Ltd. (深圳前海經緯融和資產管理有限公司)	Other	0.47%	3,745,252	(36,300)	0	3,781,552	—	—
Zheng Xiang Jin	Domestic natural person	0.28%	2,270,100	2,270,100	0	1,201,200	—	—
Sun Xiao Ou	Domestic natural person	0.24%	1,926,000	851,400	0	1,074,600	—	—
JSAN ANNE MARIE	Overseas natural person	0.19%	1,500,000	1,500,000	0	1,100,000	—	—
Cai Jia Jun	Domestic natural person	0.18%	1,455,000	455,000	0	1,074,600	—	—

Remarks on strategic investor or ordinary legal person becoming top 10 shareholders after placing of new shares (if any) (see Note 3)	Not applicable
Connected relationship or Acting in concert relationship among the above shareholders	Zhang En Rong is the father of Zhang Yun San. The Company is not aware of any connected relationship or concert-party relationship among other shareholders.

Sha eholding of he o, en ha eholde of non-lock ha e ha e			
Name of ha eholde	N mbe of lock- , ha e held a he end of he e,o ing ,e iod	Cla of ha e	Amo n
HKSCC Nominees Limited	246,705,390	Overseas listed foreign shares	246,705,390
Zhang En Rong	235,617,000	RMB ordinary shares	235,617,000
Zhang Yun San	32,168,400	RMB ordinary shares	23,108,000
		Overseas listed foreign shares	9,060,400
Lin Fu Long	26,162,000	RMB ordinary shares	26,162,000
Central Huijin Asset Management Co., Ltd	13,536,100	RMB ordinary shares	13,536,100
Ronghe Phase II private securities investment fund of Shenzhen Qianhai Jingwei Ronghe Asset Management Co., Ltd.	3,745,252	RMB ordinary shares	3,745,252
Zheng Xiang Jin	2,270,100	RMB ordinary shares	2,270,100
Sun Xiao Ou	1,926,000	RMB ordinary shares	1,926,000
JSAN ANNE MARIE	1,500,000	RMB ordinary shares	1,500,000
Cai Jia Jun	1,455,000	RMB ordinary shares	1,455,000

Explanation for the connected relationship or concert-party relationship in the top ten holders of non-restricted circulating shares, and between top ten holders of nonrestricted circulating shares and Top ten shareholders	Zhang En Rong is the father of Zhang Yun San. The Company is not aware about whether there exists connected relationship or concert-party relationship among other shareholders.
Explanation for top ten common stockholders participate in securities margin trading (if any) (see Note 4)	Not applicable

Any contracted repurchase transactions were entered into by the top 10 ordinary shareholders and the top 10 non-locked up ordinary shareholders during the reporting period

☐ Yes ✓ No

The top 10 ordinary shareholders and the top 10 non-locked up ordinary shareholders did not enter any contracted repurchase transactions during the reporting period.

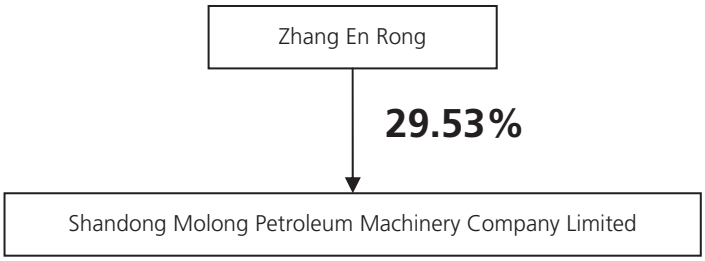
2. Con olling ha eholde of he Com an

Na al of con olling ha eholde : Na al e on holding
T e of con olling ha eholde : Na al e on

Name of con olling ha eholde	Na ionali	Whe he igh of abode of o he co n ie o di ic i ob ained
Zhang En Rong	PRC	No
Main occupation and duties		Not applicable

There is no change of the de facto controller during the reporting period.

Chart illustrating the equity and controlling relationship between the Company and the actual controller:



De facto controller controls the Company by trust or other assets management way

☐ Applicable ✓ Not applicable

4. O he legal ,e on ha eholde ho hold mo e han 10% of he ha e

☐ Applicable ✓ Not applicable

5. Re ic ion on ed c ion of ha e fo he con olling ha eholde , de fac o con olle , ,a o e c ing and o he commi men en i

☐ Applicable ✓ Not applicable

VII. Preferred Stock

☐ Applicable ✓ Not applicable

The Company had no preferred stock during the reporting period.

VIII. Convertible Corporate Bonds

☐ Applicable ✓ Not applicable

The Company had no convertible corporate bonds during the reporting period.

M . Li Min, male, Han ethnicity, born in February 1975, aged 44, graduated from Shandong University and holds the professional title of accountant. Joining the Company in 2003, he has successively held the posts of director of the information center, audit director and nance director of the Company. He has over 10 years of experience in nance management. He is currently an executive director, deputy general manager, chief nancial ofcer, and secretary to the Board of the Company.

M . Li Zhi Xin, male, Han ethnicity, born in June 1977, aged 42, is a CPC party member and holds an EMBA degree from the School of Continuing Education, Tsinghua University. Joining the Company in 1994, he served as the branch production director and the person in charge of the production control center successively. He is currently an executive director and deputy general manager of the Company, in charge of the safety, environmental protection and overall production of group companies.

M . Zhang Y Zhi, male, Han ethnicity, born in November 1958, aged 61, is a CPC party member and holds an EMBA degree from the School of Continuing Education, Tsinghua University. Joining the Company in October 1994, he has successively held the posts of manager of the Xinjiang representative ofce of the Company, general manager of the marketing company, deputy general manager of the Company and chairman of the labor union. He is currently an executive director and deputy general manager of the Company, in charge of the sales of group companies.

Non-e ec i e Di ec o

M . Yao Yo Ling, male, Han ethnicity, born in July 1962, aged 57, is a CPC party member, a graduate student with a doctoral degree in engineering, and a researcher of engineering technology application. He was the deputy factory manager of Laigang Steel Rolling Plant (萊鋼軋鋼廠), the deputy chief of the command department for the technical transformation project of Laigang Steel and later the chief of the same department, a director and the deputy general manager of Luyin Investment Group Co., Ltd. He is currently a member of the CPC party committee and deputy general manager of Luyin Investment Group Co., Ltd. Mr. Yao You Ling joined the Group in December 2018.

M . Wang Q an Hong, male, Han ethnicity, born in December 1968, aged 51, is an economist with a junior college degree. Mr. Wang was an ofcer of the planning ofce at Agricultural Bank of China Shandong Branch, a senior staff member and a principal staff member of the capital and nance department of China Great Wall Asset Management Jinan Ofce, and the project manager, business director and deputy senior manager of China Great Wall Asset Management Jinan Ofce (presiding over work). He is currently the deputy senior manager of the second asset management department of China Great Wall Asset Management Co., Ltd. Shandong Branch (presiding over work). Mr. Wang Quan Hong joined the Group in December 2018.

Inde enden Di ec o

M . Tang Qing Bin, male, Han ethnicity, born in October 1963, aged 56, is a CPC party member and a certied public accountant with a college degree. Mr. Tang has extensive practical experience in corporate restructuring, risk management and control, and corporate auditing. Mr. Tang was a teacher of Shandong University of Finance and Economics, the chief accountant of Qilu Futures Brokerage Co., Ltd. (齊魯期貨經紀公司), and the director of Dongfang Junhe Certied Public Accountants Co., Ltd. He is currently a senior partner of Beijing Zhongzheng Tiantong Certied Public Accountants Co., Ltd, an independent director of the Company, and an independent director of Lucion Venture Capital Group Co., Ltd. Mr. Tang Qing Bin joined the Group in December 2018.

M . Song Zhi Wang, male, Han ethnicity, born in September 1963, aged 56, is a senior economist with a master's degree in business administration. Mr. Song was a teacher at the School of Finance of Qilu University of Technology, a □nancial supervisor at the □nancial management of□ce of the People's Bank of China (Shandong Branch), and the deputy general manager of Ping An Property & Casualty Insurance Company of China, Ltd. (Shandong Branch). Mr. Song is currently the chairman and general manager of Shandong Jiuan Insurance Broker Co., Ltd. (山東九安保險經紀股份有限公司), a deputy-director member of Shandong Insurance Industry Reform and Development Expert Advisory Committee (山東保險業改革發展專家諮詢委員會), a vice president of Shandong Insurance Society (山東省保險學會) and a supervisor of Shandong Insurance Intermediary Association. Mr. Song Zhi Wang joined the Group in December 2018.

M . Cai Zhong Jie, male, Han ethnicity, born in November 1962, aged 57, is a CPC party member and holds a master's degree in law of China University of Political Science and Law. Starting his career as a lawyer in 1985, Mr. Cai has been recognised as an Outstanding Provincial Lawyer and an Outstanding National Lawyer successively. He was also recognised as an Advanced Worker by the Department of Justice of Shandong Province for several times. In addition, Mr. Cai has been selected as a member of the Legal Expert Database of Shandong Provincial People's Government, the Legal Expert Database of Shandong Provincial Party Committee, and the Legal Advisory Committee of Shandong Provincial State-owned Assets Supervision and Administration Commission. He is currently the director, senior lawyer, and senior partner of Jincheng Tongda & Neal (Jinan) Law Firm (金誠同達(濟南)律師事務所) and an independent director of Jinneng Science and Technology Company Limited. Mr. Cai Zhong Jie joined the Group in December 2018.

(2) Membe of he S e i o Boa d

M . Wei Zhao Qiang, male, Han ethnicity, born in April 1971, aged 48, holds a junior college degree. Joining the Company in May 1995, Mr. Wei has successively served as a technician and director of Maolong Company (懋隆公司), and the chief of the electro-mechanical section of Shouguang Baolong. He is currently the chief electrical engineer and the Casting and Forging Company and the director of the equipment of□ce of the smelting reduction department, and chairman of the Supervisory Board.

M . Wang Ming H a, male, Han ethnicity, born in October 1974, aged 45, is a CPC party member and a graduate student with a doctoral degree in law. Mr. Wang served as an associate chief judge for No.2 Civil Court of the Intermediate People's Court of Jinan City. He has been engaged in the trial of civil and commercial cases as well as business guidance for a long period of time, and has conducted in-depth research on corporate law, insurance law and securities law. Mr. Wang is currently the program director for the master's degree in law at Shandong Normal University Law School, a supervisor and professor for the master's degree in law, and a part-time lawyer with Grandall Law Firm (Jinan). Mr. Wang Ming Hua joined the Group in December 2018.

M . Li Bo, male, Han ethnicity, born in April 1975, aged 44, is a CPC party member and holds a master's degree in business administration. Mr. Liu worked for the Financial Ombudsman's Of□ce of the Ministry of Finance in Shandong (財政部駐山東省財政監察專員辦事處), served as a project manager of Shandong Xinyuan Limited Liability Accounting Firm (山東信源有限責任會計師事務所), the deputy director and later the director of Shandong Zhongda Accounting Firm. Mr. Liu is currently the director of Mazars Certi□ed Public Accountants LLP. (Shandong Branch). He is also a fellow member of the Chinese Institute of Certi□ed Public Accountants, a Premium Industry Talent of Certi□ed Public Accountants in Shandong (山東省註冊會計師行業高端人才), a □nancial expert for the World Bank Shandong Project, and a distinguished □nancial expert for the Department of Finance, Department of Commerce, and Economic and Information Technology Committee of Shandong Province. Mr. Liu Bo joined the Group in December 2018.

(3) Senio Managemen

For the biographical details of Mr. Liu Yun Long, the general manager of the Company, and Mr. Liu Min, Mr. Li Zhi Xin and Mr. Zhang Yu Zhi, the deputy general managers of the Company, please refer to "(1) Members of the Board" of this section.

(4) Com an Sec e a

M . Chan Wing Nang, Bill (陳永能先生), born in June 1961, aged 58, is the company secretary of the Company. Mr. Chan Wing Nang, Billy graduated from the University of Newcastle upon Tyne, United Kingdom with a bachelor degree in Civil Engineering in 1986. He also received a master degree in business administration from the University of Warwick, United Kingdom. He is a member of the Hong Kong Institute of Certi□ed Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Chan Wing Nang, Billy has over 10 years of experience in the accounting and consulting field. Prior to joining the Group, Mr. Chan was a director in a consulting company. Mr. Chan Wing Nang, Billy joined the Group on 13 December 2004.

Po i ion held a ha eholde ' en i ie

☐ Applicable ✓ Not applicable

Po i ion held a o he en i ie

✓ Applicable ☐ Not applicable

Name of em lo ee	Name of o he en i	Po i ion held a o he en i	Te m a da e	Te m end da e	En i lemen o com en a ion and allo ance f om o he en i
Yao You Ling	Luyin Investment Group Co., Ltd.	Deputy general manager	January 2010	—	Yes
Wang Quan Hong	Great Wall Asset Management Co., Ltd., Shandong Province Branch	Senior manager	February 2000	—	Yes
Tang Qing Bin	Beijing Zhongzheng Tiantong Certi□ed Public Accountants Co., Ltd. (Special General Partnership)	Senior partner	October 2010	—	Yes
Tang Qing Bin	Lucion Venture Capital Group Co., Ltd.	Independent director	January 2019	—	Yes
Song Zhi Wang	Shandong Jiuan Insurance Broker Co., Ltd.	Chairman	March 2003	—	Yes
Cai Zhong Jie	Jincheng Tongda & Neal (Jinan) Law Firm	Senior partner	September 2014	—	Yes
Cai Zhong Jie	Jinan Ruitao Corporate Management and Consultancy Co., Ltd.	Executive director and manager	June 2017	—	Yes
Cai Zhong Jie	Jinneng Science and Technology Company Limited	Independent director	November 2017	—	Yes
Wang Ming Hua	Shandong Normal University	Professor	July 2015	—	Yes
Liu Bo	Union Power Certi□ed Public Accountants (Special General Partnership)	Director of Shandong Branch	May 2017	—	Yes

An ec i ie eg la o in i ion ni hmen o he Com an ' Di ec o , S e i o and enio managemen ho a e inc mben and o going d ing he e o ing e iod a la 3 ea

☐ Applicable ✓ Not applicable

IV. Remunerations of Directors, Supervisors and Senior Management

Deci ion oce , ba i fo de e mining and ac al a men of he em ne a ion of Di ec o , S e i o and Senio Managemen

The remuneration of directors and supervisors of the Company is proposed by the Board of the Company. After consent by the Board, the proposal will then be presented to the general meeting for consideration and approval; while the remuneration plan for the senior management is approved by the Board. The subsidy for the Independent Directors and Supervisors of the Company is determined according to the industry level; the remuneration of the Worker Directors, Worker Supervisors and Senior Management of the Company is decided based on the internal wage system and assessment system of the Company. During the reporting period, the Worker Directors, Worker Supervisors and Senior Management received their remuneration on a timely manner according to the wage system and assessment system of the Company. External directors and supervisors receive their remuneration semi-annually.

Com en a ion of Di ec o , S e i o and Senio Managemen d ing he e o ing e iod

Unit: RMB'0,000

Name	Po i ion	Gende	Age	D S a	To al em ne a ion befo e a ecei ed f om he Com an	En i lemen o com en a ion f om he ela ed a of he Com an
Liu Yun Long	Chairman, general manager	Male	50	Incumbent	69.61	No
Liu Min	Executive director, deputy general manager, nancial controller, secretary to the board	Male	44	Incumbent	43.76	No
Li Zhi Xin	Executive director, deputy general manager	Male	42	Incumbent	50.08	No
Zhang Yu Zhi	Executive director, deputy general manager	Male	61	Incumbent	39.13	No
Yao You Ling	Non-executive director	Male	57	Incumbent	0	No
Wang Quan Hong	Non-executive director	Male	51	Incumbent	0	No
Tang Qing Bin	Independent director	Male	56	Incumbent	12.73	No
Song Zhi Wang	Independent director	Male	56	Incumbent	12.73	No
Cai Zhong Jie	Independent director	Male	57	Incumbent	12.73	No
Wei Zhao Qiang	Chairman of supervisory board	Male	48	Incumbent	20.36	No
Wang Ming Hua	Supervisor	Male	45	Incumbent	3.76	No
Liu Bo	Supervisor	Male	44	Incumbent	3.76	No
Total	—	—	—	—	268.65	—

S ock o ne hi incen i e a a ded o he Di ec o and enio managemen of he Com an

☐ Applicable ✓ Not applicable

V. Personnel of the Company

1. N mbe of aff , ofe ional c e and ed ca ion le el

Number of staffs on active duty in parent company (persons)	2,096
Number of staffs on active duty in major subsidiaries (persons)	1,117
Total number of staffs on active duty (persons)	3,213
Total number of paid staffs in the current period (persons)	3,213
Number of retired staffs whose expenses are borne by the parent company and major subsidiaries (persons)	0

P ofe ional c e

P ofe ional c e e	**N mbe of indi id al**
Production personnel	2,926
Sales personnel	53
Technicians	36
Financial staff	35
Administrative staff	163
Total	3,213

Ed ca ion le el

T e of ed ca ion le el	**N mbe of indi id al**
Master and above	38
Bachelor	182
Junior college	596
Technical secondary school (high school) quali□cations and below	2,397
Total	3,213

2. Rem ne a ion olic

1. In order to govern the remuneration management of the Company, give full play of the incentive effect of remuneration, de□ne responsibilities of all departments, depending on the current actual circumstances, the Company gradually established and improved a relatively reasonable remuneration structure and formulated a corresponding remuneration system and work process;

2. On the premises of providing stable income and performance-based incentives to staff members on a fair and reasonable basis, the Company remunerates staff depending on their performance that motivates their enthusiasm and sense of responsibility. By understanding the local market rate of remuneration and bene□t packages, the Group determines the remuneration base based on the requirements of different positions and make adjustment as appropriate to ensure that staff remuneration is in line with the market rate for the same industry and job type in the society, and also enhance the external attractiveness and internal incentivisation;

3. To encourage new employee to stay in the job for a longer term and also encourage older employees to continue to shine and make greater contributions to the Company, the Company implements a non-descending calculation method for length of employment, which is more humanised, rationalised and attractive than surrounding companies. It also guarantees employees of the Company to have a long-term job;

4. To facilitate minor internal changes, technological achievements, and development of new products during special periods, the Company has formulated a series of incentive measures to further enhance the enthusiasm of employees for greater performance and higher pro□tability, so that the employees can share interests with the Company.

3. T aining , og amme

1. The Company has always taken talent nurturing and development as one of the measures supporting the Company's development strategy. Therefore, the Company links employee training with its strategic planning and operating indicators by coordinating internal and external resources. Based on the concept of "going out and recruiting in" and taken into account the requirements of the Company and various departments for quality and competence of employees, the Company has formulated an annual training implementation plan;

2. To facilitate new employees to quickly adapt to the Company's culture and management principles and meet the job requirements, in addition to focusing on the training in corporate culture, corporate mechanism as well as quality, safety, technique systems, the Company also continuously improves the internal training mechanism by establishing an team of internal trainers, organising internal staff training programmes, increasing training efforts, optimising training results, and making constant adjustments and update according to the training results;

3. Depending on the actual circumstances and based on the requirements of specific posts, the Company organises and enrolls external professional training programmes on an irregular basis so as to improve staff achievements and job competence. The Company also engages external trainers on an irregular basis to provide collective training for management personnel of the Company, in order to continuously raise their management skill and professionalism and enhance competitiveness of the Company;

4. To further improve the governance of corporate systems, the Company adopts various training approaches to promote staff development help them plan reasonable career paths, enhance staff cohesiveness, create good learning-oriented corporate culture, and boost shared development of employees and the Company.

4. Labo o o cing condi ion

☐ Applicable ✓ Not applicable

I. Corporate Governance

During the reporting period, under the requirements of Company Law (《公司法》), Securities Law (《證券法》), Code of Corporate Governance for Listed Companies (《上市公司治理準則》) and listing rules of Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》) in the PRC, and other requirements of the relevant provisions of China Securities Regulatory Commission, the Company has established a high standard of governance structure and sound internal management system to improve the Company's standard operation level. The Board considers there is no material deviation of the Company in its corporate governance from the documented regulatory requirements provided for listed companies in respect of corporate governance.

(I) **Sha eholde and gene al mee ing** : The Company has established a corporate governance structure to ensure that all shareholders are able to fully exercise their rights and enjoy equal status, in particular for minority shareholders. Suf□cient time is provided at general meetings of shareholders, which are to be convened legally and validly, for the discussion of each proposal, to provide good opportunities for communications between the Board and the shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.

(II) **Con olling ha eholde and he li ed com an** : The Company's controlling shareholder is Mr. Zhang En Rong. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without adversely affecting the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles. The staffing, assets, financial affairs, organization and business of the controlling shareholder are independent to those of the listed company, with the controlling shareholder. The controlling shareholder has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the general meeting.

(III) **Di ec o and he Boa d: The Com an a oin** directors in strict compliance with the procedures set out its Articles, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Board has a reasonable professional structure, acting in the best interests of the Company and in good faith. The Company has formulated the Rules of Procedures for Board Meetings, and board meetings are convened and held in strict compliance with the Articles and Rules of Procedures for Board Meetings. To optimise the corporate governance structure, four specialist committees — the Strategic Committee, Nomination Committee, Audit Committee and Remuneration and Evaluation Committee — have been established by the Board in accordance with the Governance Standards for Listed Companies. The majority of members and the conveners in each of these committees are Independent Directors, providing scienti□c and professional opinions for reference by the Board in its decision-making.

(IV) **S e i o and he S e i o Commi ee**: The Supervisors possess professional knowledge and work experience in legal, accounting and other areas and are elected by way of cumulative voting. They monitor the □nancial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the General Manager and other members of the senior management, and safeguard the legal rights and interests of the Company and shareholders. The Company has formulated rules of procedure for the Supervisory Committee meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles and the Rules of Procedure for Supervisory Committee Meetings.

(V) **Pe fo mance a ai al and incen i e mechani m**: During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Articles of the Company. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of the Company.

(VI) **Info ma ion di clo e and an a enc** : The Secretary to the Board is responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. Relevant information is disclosed in strict compliance with Rules on Fair Information Disclosure by Companies Listed on the Shenzhen Stock Exchange and the Articles in a true, accurate, complete and timely manner, ensuring that all shareholders have equal access to information. In 2019, there were no irregularities in corporate governance such as disclosure of unpublished information to major shareholders and de facto controllers.

(VII) **S akeholde** : The Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, and suppliers, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.

An ignik can a iance be een ac al a e of co o a e go e nance and li ed com an go e ning li ed com an go e ning of CSRC i e.

☐ Yes ✓ No

The Company considers that there is no significant variance between actual state of corporate governance and requirements of governance and restrictive guidelines relating to a listed company issued by the CSRC.

II. Particulars about the Independence of Businesses, Personnel, Assets, Organisations, and Finance of the Company from the Controlling Shareholder

1. Independence of business: The Company was operated completely independent from the controlling shareholder, and had its independent and complete business operation capability.

2. Independence of personnel: The labour, personnel and remuneration management were completely separated from the controlling shareholder.

3. Independence of assets: There was only shareholding relationship between the Company and its controlling shareholders. The assets of the Company were completely separated from the controlling shareholder.

4. Independence of organisation: The Company had a mature and independent organization structure, which was established according to the legal processes and the business practice of the Company. It was completely separated from the controlling shareholder.

5. Independence of finance: The Company had its own accounting department, accounting system, financial management system, and bank accounts which were independent of the controlling shareholder.

III. Peer competition

☐ Applicable ✓ Not applicable

IV. Annual general meeting and extraordinary general meeting held during the reporting period

1. Gene al mee ing d ing he e,o ing ,e iod

Se ion of mee ing	T ,e of mee ing	Pe cen age of in e o a ending	Con ening da e	Da e of Di clo e	Inde of Di clo e
2018 Annual general meeting	Annual general meeting	30.06%	21 June 2019	22 June 2019	http://www.cninfo.com.cn

2. P efe ed ha eholde ho i eco e ed b o ing ,o e e e con ening e ao dina gene al mee ing.

☐ Applicable ✓ Not applicable

V. Discharge of duties by independent directors during the reporting period

1. The a endance of inde,enden di ec o o he Boa d mee ing and gene al mee ing

The a endance of inde,enden di ec o o he Boa d mee ing and gene al mee ing							
Name of inde,enden di ec o	N mbe of boa d mee ing hall a end d ing he e,o ing ,e iod	N mbe of boa d mee ing a ended in ,e on	N mbe of boa d mee ing a ended ia elecomm nica ion	N mbe of boa d mee ing a ended b e, e en a i e	N mbe of boa d mee ing ab en	Whe he ab en f om o con ec i e boa d mee ing in ,e on	N mbe of mee ing a ended
Tang Qing Bin	5	1	4	0	0	No	1
Song Zhi Wang	5	1	4	0	0	No	1
Cai Zhong Jie	5	1	4	0	0	No	1

E ,lana ion fo he o con ec i e ab ence f om boa d mee ing b ,e on

2. The inde,enden di ec o ' di ag eemen on ma e ai ed o he Com,an

Whe he he inde,enden di ec o ai ed an di ag eemen on ma e o he Com,an

☐ Yes ✓ No

During the reporting period, independent directors did not raise any disagreement on matters to the Company.

3. O he de c i, ion of d ,e fo mance b inde,enden di ec o

Whe he inde,enden di ec o ' gge ion fo he Com,an e e acce, ed

☐ Yes ✓ No

E ,lana ion fo inde,enden di ec o ' gge ion fo he Com,an a acce, ed o nacce, ed

VI. Duty performance by the special committees of the Board during the reporting period

The Board of the Company has established the Strategy Committee, the Audit Committee, the Remuneration and Evaluation Committee, and the Nomination Committee.

1. D e fo mance b he S a eg Commi ee

During the reporting period, the Strategy Committee of the Board of Directors discussed and analysed the current business situation, development prospects, risks and opportunities arising in the industry it operates in, based on the domestic and international economic landscape and the characteristics of the industry it operates in, and provided valuable recommendations on the implementation of the Company's development strategy. That ensured the scienti□c nature of the Company's development planning and strategic decision-making, and provided strategic support for the company's continuous and sound development.

2. D e fo mance b he A di Commi ee

During the reporting period, the Audit Committee of the Board of the Company performed its duties in accordance with relevant requirements, which included to understand in detail the □nancial position and business operations of the Company, review the Company's periodic reports, change accounting policies, reappoint auditors, and the daily audit by the internal audit department, etc., and to examine the formulation and implementation of the Company's internal control system. These enabled the committee to give effective guidance and supervision to the □nancial position and business operations of the Company.

3. D e fo mance b he Rem ne a ion and E al a ion Commi ee

During the reporting period, the Remuneration and Evaluation Committee of the Board considered and veri□ed the salaries and wages, allowances and other payments of the directors and senior management of the Company, and provided guiding opinions on the management of remuneration of directors and senior management of the Company.

4. D e fo mance b he Nomina ion Commi ee

During the reporting period, the Nomination Committee of the Board of the Company performed its duties in accordance with the relevant requirements, which included to discuss matters such as the quali□cation of assuming the of□ce of directors and senior management, and took active part in recommending candidates for appointment and election as directors and senior management of the Company.

VII. Works of the Supervisory Board

Did he e i o boa d nd an i k e o e of he Com an in he co e of e i ion d ing he e o ing e iod

☐ Yes ✓ No

The Supervisory Board had no disagreement to the supervisory matters in the reporting period.

VIII. Assessment and incentive mechanism for the Senior Management

The Senior Management of the Company is assessed on monthly and annually basis. Monthly assessments were conducted in line with the direction of the annual major tasks, and were focused on appraisals of two □xed indicators, namely the completion status of in each month and the evaluation on important performance indicators. It was carried out monthly by way of cross assessment and supervision among the related departments. The annual assessments were carried out by the Remuneration and Assessment Committee with reference to the results of monthly assessments and overall performances during the year, including the integrated quality of Senior Management and internal training of talents.

IX. Evaluation Report of internal control

1. An ma e ial de cienc a de ec ed d ing he e o ing e iod

☐ Yes ✓ No

2. Self-a e men e o on in e nal con ol

Date of disclosure of the full context of the self-assessment report on internal control	28 March 2020
Index of full disclosure of self-assessment report on internal controls	cninfo.com (巨潮資訊網) (www.cninfo.com.cn)
The percentage of total assets included in the scope of evaluation to the total assets in combined □nancial statement of the Company	97.40%
The percentage of operation revenue included in the scope of evaluation to the total assets in combined □nancial statement of the Company	97.66%

S anda d of af ming defec

T e	Financial e o	Non-nancial e o
Qualitative standard	Signs of □nancial reporting great defect include: fraud of the company directors, supervisors and senior management personnel, the correction of the published financial report, current report material misstatement is found by intra-company control, the invalid audit committee and audit function to the Company's external financial reports and financial reporting internal control supervision. Financial reporting important defect signs include: not in accordance with generally accepted accounting principles to select and apply appropriate accounting policies, procedures and control measures of antifraud has not been established, the accounting treatment of unusual or special transaction do not set up corresponding control mechanism or no implementation, and no corresponding compensatory control, for the control of the □nal □nancial reporting process have one or more of the defects and cannot guarantee reasonable preparation of financial statements to realize the fair reflection. Common Defects is other control defect in addition to the above major □aws and important defects control.	Non-□nancial reporting signs of major defects including: violate national laws and regulations or normative documents, making major decisions, lack of procedure is not scienti□c, lack of system can lead to systemic failure, signi□cant or important defects can't get the rectification and other significant negative impact on the company. Other circumstances according to the influence degree were identified as important defects or defects in general.

	Standard of affirming defec	
Type	**Financial reports**	**Non-financial reports**
Quantitative standard	Refers to consider compensating control measures and major defects after actual deviation rate, overall impact levels above the level of the importance of the defects (0.5% of the operation revenue or 0.8% of the total profits). Refers to consider important defects after compensating the control measures and actual deviation rate, the law overall impact level below the importance level (0.5% of the operation revenue or 0.8% of the total profits), but higher than the general level (0.1% of the total amount or 0.5% of the revenues or profits). Defects commonly refer to consider compensating control measures and actual deviation rate, defect the overall level is lower than the general level (0.1% of the operation revenue or 0.5% of the total profits).	Non-financial reporting major defects refer to the direct property losses in RMB5 million (including) above, signs include: has been publicly disclosed and to the company regularly report produce negative impact; Enterprise key positions and personnel erosion is serious; Negative news frequently exposed by the media. Important defects refer to the direct property losses (including) in RMB0.5 million-RMB5 million, signs include: fined by the national government, but have not produced a negative impact on the regular report of the Company; The media exposure and have a negative impact. Defects commonly refer to the direct property losses under RMB0.5 million, signs include: punished (provincial) the following government departments at the provincial level but have not produced a negative impact on the regular report of the Company.
Number of major defect in financial reports		0
Number of major defect in non-financial reports		0
Number of significant defect in financial reports		0
Number of significant defect in non-financial reports		0

X. Auditors' report or assurance report on internal control

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In our opinion, Shandong Molong maintained effective internal control system of nancial reporting in all major aspects as at 31 December 2019 in accordance with the Basic Standard and Implementation Guidelines and the requirements of other relevant laws and regulations.

Auditors' report on internal control disclosure condition	Disclosure
Date of disclosure of the full context of the Auditors' report on internal control	28 March 2020
Index of full disclosure of Auditors' report on internal control	cninfo.com (巨潮資訊網) (www.cninfo.com.cn)
Auditors' report on internal control opinion type	Standard with unquali ed opinion
Whether there is signi cant defect in non-nancial reports	No

Whether accounting rm issued non-standard auditors' report on internal control

☐ Yes ✓ No

Whether the opinion of auditor on internal controls from the accounting rm is in line with the Board's self-assessment report

✓ Yes ☐ No

XI. Corporate Governance Report

1. Com liance i h he Code on Co o a e Go e nance P ac ice

The Company puts strong emphasis on the superiority, steadiness and rationality of corporate governance. In order to enhance the management standard, the Company has set up a committee to review its internal Governance structure.

This corporate governance report (the "CG Report") is to outline the major principles of the Company's corporate governance. Shareholders of the Company are encouraged to make their views known to the Group if they have issues with the Company's corporate governance and to directly raise any matters of concern to the chairman of the Board (the "Chairman" or the "Chairman of the Board").

The Company has adopted the principles and complied with the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which shall also be revised from time to time in accordance with the Listing Rules. During the reporting period, except paragraph 7 headed "Chairman and General Manager" in this section, the Board considers the Company has complied with the code provisions as set out in the CG Code.

2. Sec i ie T an ac ion b Di ec o

In accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. The Model Code is also applicable to the senior management of the Company. Having made speci□c enquiries to all the Directors, no Directors have indicated that they had breached the Model Code throughout 2019.

3. Com o i ion and Re on ibili ie of he Boa d

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing Shareholders' value. The Board, led by the Chairman, is responsible for the approval and monitoring of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the works of management.

The sixth session of the Board is comprised of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Biographical details of the Directors are set out in the "Directors, Supervisors, Senior Management and Employees" section of this annual report. Pursuant to Rule 3.13 of the Listing Rules, the Company has received the written con□rmation of independence from each independent non-executive Director. The independent non-executive Director will only be regarded as independent by the Board if it is con□rmed that such Director does not have any other direct or indirect relationship with the Group. There is no □nancial, business and relative relationship among members of the Board.

In 2019, the Board convened □ve meetings and the Directors shall meet more frequently as and when required. At least 14 days' notice of all regular Board meetings is given to all Directors, and all Directors are given the opportunity to include matters for discussion in the agenda. The individual attendance record of each Director at such Board meetings is shown as follows:

Membe of Di ec o	Po i ion	N mbe of mee ing a ended/ To al n mbe of mee ing
Liu Yun Long	Chairman and executive director	5/5
Liu Min	Executive director	5/5
Zhang Yu Zhi	Executive director	5/5
Li Zhi Xin	Executive director	5/5
Yao You Ling	Non-executive director	5/5
Wang Quan Hong	Non-executive director	5/5
Tang Qing Bin	Independent non-executive director	5/5
Song Zhi Wang	Independent non-executive director	5/5
Cai Zhong Jie	Independent non-executive director	5/5

All the Directors have access to relevant information timely. They also have access to the advice and services of the company secretary of the Company, who is responsible for providing the Directors with Board papers and related materials. Where queries are raised by the Directors, prompt and full responses will be given as soon as possible.

Should a signi□cant potential con□ict of interest involving a substantial shareholder of the Company or a Director arise, the matter will be discussed at a duly convened Board meeting, as opposed to being dealt with by a written resolution. Independent non-executive Directors with no con□ict of interest will be present at meetings dealing with such conflict issues. Independent non-executive Directors are identified in all corporate communications containing the names of the Directors. An updated list of the Directors identifying the Independent non-executive Directors and the roles and functions of the Directors is maintained on the website of the Company and the website of the Stock Exchange.

The Board of the Company has delegated its daily business and operating responsibilities to executive directors and senior management and management members in charge of each segment and function. The Directors of the Company act in an objective manner and made decisions in the interests of the Company. The management and senior management of the Company convene meetings with the Board on periodic basis to discuss day-to-day operation and performance of the Company, as well as speci□c implementation of relevant Board decisions. The management and senior management members of the Company master, execute, interpret and oversee the compliance of the Company and its subsidiaries with internal rules and operating procedures, and perform regulr review , make recommendations and give advice on the adjustments to the rules and procedures as appropriate. The management and senior management members of the Company regularly reports to the Board, and maintain communication with the Board when necessary. If the Board or any of its committees considers itself necessary to seek for independent professional advice, the Company will arrange for independent legal consultation upon the request of the Board or such board committee.

4. Skill , Kno ledge, E e iience and A ib e of Di ec o

All Directors of the Board had served in office during the year. Every Director committed sufficient time and attention to the affairs of the Company. The Directors had also demonstrated their understanding and commission to high standards of corporate governance. Each executive Director had brought his perspective to the Board through his deep understanding of the Group's business. The non-executive Directors and the independent non-executive Directors had contributed their own skills and experience, understanding of local and global economies, and knowledge of capital markets as well as the business of the Group. The Company is responsible for arranging and funding suitable continuous professional development programmes for all Directors to develop and refresh their knowledge and skills.

5. Ind c ion and aining

Each newly appointed Director, executive or non-executive, is required to undertake an induction program to ensure that he has a proper understanding of his duties and responsibilities. The induction program includes an overview of the Group's business operation and governance policies, the Board meetings' procedures, matters reserved to the Board, an introduction of the Board committees, the Directors' responsibilities and duties, relevant regulatory requirements, review(s) of minutes of the Board and Board committees in the past 12 months, and brie□ngs with senior of□cers of the Group and site visits (if necessary).

Pursuant to the Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure their contribution to the Board remains informed and relevant. During the Year, all Directors had participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

The company secretary of the Company maintains records of training attended by the Directors. The training attended by each Director during the reporting period is tabulated as follows:

Name	T e of aining (N e 1)	T aining ma e (N e 2)
Mr. Liu Yun Long (Chairman)	a, b	i, ii, iii, iv
Mr. Liu Min	a, b	i, ii, iii, iv
Mr. Zhang Yu Zhi	a, b	i, ii, iii, iv
Mr. Li Zhi Xin	a, b	i, ii, iii, iv
Mr. Yao You Ling	a, b	i, ii, iii, iv
Mr. Wang Quan Hong	a, b	i, ii, iii, iv
Mr. Tang Qing Bin	a, b	i, ii, iii, iv
Mr. Song Zhi Wang	a, b	i, ii, iii, iv
Mr. Cai Zhong Jie	a, b	i, ii, iii, iv

N e 1:

a. attending seminar or training session
b. self-development and updates relating to general economy, business development, director's duties and responsibilities, etc.

N e 2:

i. corporate governance
ii. regulatory compliance
iii. nance
iv. management and operation

The Company also organized the Directors to take part in training activities which organized by the Stock Exchange, SZSE, and other regulators, which including rules amendments, system updates, and the latest market trend, in order to let the Directors have the updated knowledge to the latest regulatory system and rules.

6. Di ec o ' and of ce ' liabili in ance and indemni

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. Throughout 2019, no claim had been made against the Directors and the officers of the Company.

7. Chai man and Gene al Manage

The Chairman provides leadership for the Board. He is responsible for approving and monitoring the overall strategies and policies of the Group, approving annual budget and business plan, assessing the performance of the Company and overseeing the duties of management. The General Manager is responsible for the daily operations of the Group. Pursuant to Code Provision A.2.1, the roles of Chairman and General Manager are separate and are not performed by the same individual.

During the Year, Mr. Liu Yun Long was both the chairman and general manager of the Company, responsible for the overall operation of the Company, which deviated from the principles and code provisions under the Corporate Governance Practices as contained in Appendix 14 to the Hong Kong Listing Rules. Despite of this, the Directors of the Company believe that the performance of both roles of chairman and general manager by Mr. Liu Yun Long allows the Company to plan and implement business strategy in a more effective manner, and in turn, to grasp business opportunities effectively and promptly. As all major decisions are made after consultation with other members of the Board, the Company believes that a balance of power and authority can be maintained under the supervision of the Board and independent non-executive directors.

8. Te m of a oin men of Di ec o

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service contract or appointment letter with the Company. In respect of the term of appointment, please refer to section VIII (Directors, Supervisors, Senior Management and Employees) of this annual report. The Directors have power at any time and from time to time to appoint any person to be a Director, either to ll a casual vacancy or as an addition to the existing Directors. The term of the sixth session of the Board of the Company ends in December 2021.

9. The Di ec o con med hei e on ibili ie in e a ing he G o ' nancial a emen

The Directors acknowledged the responsibility for preparing the accounts and have con rmed that the preparation of the Group's financial statement is in compliance with the relevant regulations and applicable accounting standards.

In preparing the nancial statements for the Year, the Directors adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations.

The nancial statements for the Year have been prepared by the Directors on a going concern basis. There are no material uncertainties relating to events or conditions that may cast signi cant doubt on the Company's ability to continue as a going concern. A statement by the external auditors of the Company regarding their reporting responsibilities on the accounts of the Group is set out in the "Financial Statements" section of this annual report.

10. Boa d Commi ee of he Com an

(A) S a egic Commi ee

The Strategic Committee was established on 26 December 2012 and its current members are Mr. Liu Yun Long, Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie, with Mr. Liu Yun Long as the Chairman of the Committee. The Strategic Committee of the Board discharged of its duties with diligence in accordance with the related requirements of the China Securities Regulatory Commission, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange and the implementation rules of the Strategic Committee of the Board of the Company.

(B) A di Commi ee

The Audit Committee was established on 20 March 2004 and its current members are Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie, with Mr. Tang Qing Bin as the Chairman of the Committee. The audit committee of the Board discharged of its duties with diligence in accordance with the related requirements of the China Securities Regulatory Commission, the Shenzhen Stock Exchange, the Stock Exchange and the work instructions of the audit committee of the Board.

The Audit Committee is provided with sufficient resources to perform its duties. Latest terms of reference of the Audit Committee can be viewed on the website of the Company and the website of the Stock Exchange. The major roles of the Audit Committee include the following:

(a) to act as the key representative body for overseeing the relationship with the external auditors;

(b) to review the Company's annual and interim □nancial statements; and

(c) to evaluate the effectiveness of the Group's internal control and risk management systems. The individual attendance record of each member of the Audit Committee is tabulated as follows:

Membe of he A di Commi ee	**D ie**	**N mbe of mee ing a ended/To al n mbe of mee ing**
Tang Qing Bin	Committee chairman and independent non-executive director	4/4
Song Zhi Wang	Independent non-executive director	4/4
Cai Zhong Jie	Independent non-executive director	4/4

(C) Nomina ion Commi ee

The Nomination Committee was established on 18 January 2005 and its current members are Mr. Song Zhi Wang, Mr. Liu Yun Long, Mr. Tang Qing Bin and Mr. Cai Zhong Jie, with Mr. Song Zhi Wang as the chairman of the Nomination Committee. In the reporting period, the nomination committee held one meeting in total. The individual attendance record of each member of the Nomination Committee is tabulated as follows:

Membe of he Nomina ion Commi ee	**D ie**	**N mbe of mee ing a ended/To al n mbe of mee ing**
Song Zhi Wang	Committee chairman and independent non-executive director	1/1
Liu Yun Long	Chairman and executive director	1/1
Tang Qing Bin	Independent non-executive director	1/1
Cai Zhong Jie	Independent non-executive director	1/1

According to the written terms of reference of the Nomination Committee, the major responsibilities of the Nomination Committee include:

(a) to review the structure, size, diversity policy and composition (including the skills, knowledge and experience, sex, age, cultural and education background) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of the independent non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Of□cer.

Details of the terms of reference of the Nomination Committee can be viewed on the website of the Company and the website of the Stock Exchange.

A board diversity policy was adopted in 2013. Diversity of board members can be achieved through consideration of a member of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

(D) The Rem ne a ion and A e men Commi ee

The Remuneration and Assessment Committee was established on 18 January 2005 and its current members are Mr. Cai Zhong Jie, Mr. Liu Yun Long, Mr. Tang Qing Bin and Mr. Song Zhi Wang, with Mr. Cai Zhong Jie as the Chairman of the Remuneration and Evaluation Committee. It was primarily responsible for formulating the remuneration and assessment for the Directors and the Senior Management of the Company and formulating and examining the remuneration package of the Directors and the Senior Management of the Company, and accountable to the Board. The remuneration and assessment committee does not determine the remuneration for the Directors and the Senior Management directly, but advised their remuneration to the Board according to their job performance.

The Remuneration and Assessment Committee had met once during 2019. Attendance of each member of the committee is shown in the table below:

Membe of he Rem ne a ion and A e men Commi ee	D ie	N mbe of mee ing a ended/To al n mbe of mee ing
Cai Zhong Jie	Committee chairman and independent non-executive director	1/1
Liu Yun Long	Chairman and executive director	1/1
Tang Qing Bin	Independent non-executive director	1/1
Song Zhi Wang	Independent non-executive director	1/1

The Remuneration and Assessment Committee is provided with suf□cient resources to perform its duties. The current duties and responsibilities of the Remuneration and Assessment Committee are more speci□cally set out in its latest terms of reference, details of which can be viewed on the website of the Company and the website of the Stock Exchange.

11. In e nal Con ol

The Board places great importance on internal control and risk management and is responsible for establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls. The Board has reviewed the internal control system of the Group and is of the view that the system is effective.

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance and internal audit of the Company. The major tasks of the Internal Audit Department are reviewing the □nancial condition and management of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Company has taken many steps to enhance the internal control of the Company in 2019, such as having all departments internal control inspection and appraisal, strengthening the checks and supervision of implementation of the internal control systems by the Audit Department and according to some weakness found during examination of the internal control, further improving the internal control system and strengthening the implementation of all the internal control systems.

During the review period, the Internal Audit Department issued reports to the senior management covering various operational and □nancial units of the Company and also conducted reviews of areas of concern identi□ed by the Company's management. Management accounts are provided to the board of Directors quarterly and the Company performs internal review and auditing. Therefore, the Board considered the risk management and internal control systems of the Group remained effective.

Progress of the corporate governance works and the formulation and implementation of the management policy on personnel with insider information:

During the reporting period, the Company strictly complied with the regulations and requirements of the "Management Policy on Information Disclosure", "Internal Reporting System of Material Information" and "Registration and Filing System of Personnel with Insider Information". We have also seriously performed our information disclosure duties, diligently carried out the con□dential and management works with respect to insider information and strictly controlled and prevented the leak of insider information in order to eliminate insider trading of the securities of the Company. After performing self-inspection, during the reporting period, the relevant departments of the Company were capable of carrying out registration for the personnel with insider information and management of external parties with access to sensitive information. There was no incidence of illegal trading of the securities of the Company and illegal trading of the securities of the Company by the Directors, Supervisors and Senior Management of the Company. The listed company and the relevant personnel did not face regulatory measures and administrative penalties arising from the implementation of the Registration and Filing System of Personnel with Insider Information and suspected insider trading.

15. Comm nica ion i h ha eholde

The Group endeavors to disclose relevant information on its activities to its shareholders in an open and timely manner, subject to applicable legal requirements. Communication between the Company and its shareholders is achieved through:

(a) The Company's annual and interim reports which have been enhanced to present a balanced, clear and comprehensive assessment of the Group's position and prospects;

(b) Forum and notices of AGMs and other general meetings and accompanying explanatory materials;

(c) Press releases on major development of the Group;

(d) Disclosures to the Stock Exchange and relevant regulatory bodies;

(e) Response to inquiries from shareholders or media by the Company Secretary; and

(f) The website of the Company through which the public can access, among other things, corporate announcements, press releases, annual reports, and general corporate information of the Group.

The communication channels between the Company and its shareholders above will be reviewed by the Board on a regular basis to ensure their effectiveness in maintaining an on-going dialogue with shareholders.

P o e of gene al mee ing

The Board values the general meetings as the principal opportunities for the Directors to meet shareholders of the Company and to develop a balanced understanding of the views of the shareholders. In 2019, the Company held one general meeting (being the annual general meeting held on 21 June 2019). The attendance record of the Directors at the general meeting is set out below:

A e da ce ec d f e D ec

Name	A ended in e on
Mr. Liu Yun Long *(C a a)*	1/1
Mr. Liu Min	1/1
Mr. Zhang Yu Zhi	0/1
Mr. Li Zhi Xin	1/1
Mr. Yao You Ling	1/1
Mr. Wang Quan Hong	1/1
Mr. Tang Qing Bin	0/1
Mr. Song Zhi Wang	1/1
Mr. Cai Zhong Jie	1/1

Notice of general meetings, annual report, nancial statements and related papers were posted to shareholders of the Company for their consideration at least 20 clear business days prior to the general meetings.

16. Objec ion o ela ed ma e of he Com an ai ed b inde enden di ec o

During the reporting period, independent directors did not raise any objection to related matters of the Company.

17. O he de c i ion of di cha ge of d ie b inde enden di ec o

The independent directors of the Company focused on the Company Operation, discharged their duties independently, and issued independent opinions on related matters incurred during the reporting period such as engagement of accounting institution, to perfect the corporate governance structure, safeguard the rights and interests of company and all shareholders has played a positive role.

18. Rem ne a ion of a di o

Shinewing Certi ed Public Accountants Ltd (Special General Partner) was responsible for the preparation of the nancial statements of the Company for 2019 in accordance with the ASBEs. In 2019, the Company paid to the auditors RMB1 million for auditing nancial statements and RMB350,000 for non-audit services, which related to internal control auditing. Save as the above, there were no other non-audit expenses during the year.

The statement of responsibility of Shinewing Certi ed Public Accountants Ltd (Special General Partner) to the nancial reporting of the Group is set out in the Financial Statements in Section XII of this annual report.

The changes of auditors in last three years: The Company appointed Shinewing Certi ed Public Accountants Ltd (Special General Partner) as the Company's auditor for the last three years.

19. Sha eholde ' Righ

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirements under the Revised CG Code which is effective from 1 April 2012.

(a) Con ening of e ao dina gene al mee ing on e i i ion b ha eholde

Shareholders who request to convene an extraordinary general meeting or a class shareholders' meeting shall follow the procedures set out below:

(1) Two or more shareholders who in aggregate hold 10% or more of the voting rights of all the shares having the right to vote in such a meeting may sign one or several written requisitions in the same form requesting the Board to convene an extraordinary general meeting or a class shareholders' meeting, and the subject matter of the meeting shall be speci□ed.

(2) The Board should according to the laws, administrative rules and regulations and the articles of association express their acceptance or refusal of the request within 10 days in writing form with reasons on the convention of the general meeting.

(3) If the Board agrees to convene an extraordinary general meeting, a notice of general meeting will be made within 5 days after the decision of the Board. If there is any change to the original proposed resolutions, consent from the original proposers should be obtained.

If the Board does not agree to convene an extraordinary general meeting or does not reply within 10 days upon receiving the request, amount of shares held by shareholders convening for the meeting cannot be less than 10% have the right to convene and preside the meeting on their own with similar procedures as a general meeting convening by Board. And shareholders have the right to request the Supervisory Committee to convene an extraordinary general meeting in writing form.

(4) If the Board agrees to convene an extraordinary general meeting, a notice of general meeting will be made within 5 days after the decision of the Board. If there is any change to the original proposed resolutions, consent from the original proposers should be obtained.

If the board of supervisors does not issue the general meeting noti□cation within the schedule time, it will be deemed as the board of supervisors not convene and preside over the general meeting, continuous over ninety days. One or more shareholders (including shareholders agent) individually or collectively owning 10% above (inclusive of 10%) shares may make the call and preside over the meeting.

(5) The Company shall be liable to pay all reasonable compensation for the expenses incurred in convening and holding a meeting by the shareholders as a result of the failure of the Board to convene such meeting upon the aforesaid requisitions and such compensation shall be deducted from any payment payable to the directors who are in default of their duties.

(b) P oced e fo ing fo a d o al a a gene al mee ing

The shareholders that individually or collectively hold more than 3% shares in the company, they can put forward proposals and submit to convener by written 20 days before the general meeting. Regarding the proposal that according with the provisions of article eighty-two, the Company should notice other shareholders after two working days receiving the temporary proposal, and they should issue a form letter and publish announcement 14 days before the shareholders' meeting scheduled date, and submit the temporary proposal to the general meeting to review.

Detailed procedures for shareholders to propose a person for election as a Director have been mentioned in the Articles of Association of the Company and are available on the Company's website.

(c) En i ie o he Boa d

Should shareholders have any enquiries to the Board of the Company, they may contact the Company by the following means:

	Fo Holde of H Sha e	Fo Holde of Dome ic Sha e
Contact Information	Principal place of business in Hong Kong Suite A, 11th Floor Ho Lee Commercial Building 38–44 D'Aguilar Street, Central Hong Kong	Registered Address in the PRC No. 999 Wensheng Street Shouguang City Shandong Province The PRC

XII. Environmental, Social and Governance Report

Abo hi e o

Shandong Molong Petroleum Machinery Company Limited (the "Company" or "Shandong Molong") and its subsidiaries (the "Group") publishes its environmental, social and governance report (this "Report" or "ESG Report"), which summarises the principles of corporate social responsibility practices and sustainability concepts of the Group for the financial year ended 31 December 2019, and explains the relationship between us and our major stakeholders, and our vision and commitments to corporate social responsibility.

Ba i of e a a ion

This Report is prepared according to Environmental, Social and Governance Reporting Guidelines (the "Guidelines") contained in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") and the scope it covered is in compliance with the disclosure principles under the Guidelines. We have also complied with the "Comply or Explain" provisions under the Guidelines to address the environmental and social impacts from various business and operating activities of the Group accordingly. For information on the corporate governance of the Group, please visit the official website of the Company (www.molonggroup.com) or refer to the annual report 2019 of the Company.

Re,.o ing ,.e iod and co,.e

This Report covers the period between 1 January 2019 and 31 December 2019 (this "Year" or the "reporting period"). It focuses on the of□ce of the Group located in Shouguang of Shandong and the subsidiaries under the operating control of the Company. Speci□cally:

- Shandong Molong Petroleum Machinery Company Limited ("Shandong Molong")
- Shouguang Baolong Petroleum Equipment Co., Ltd. ("Shouguang Baolong")
- Shouguang Maolong New Materials Technology Development Co., Ltd. ("Shouguang Maolong")
- Weihai Baolong Special Petroleum Materials Co., Ltd. ("Weihai Baolong")

Re,.o ing lang age

This Report is published in traditional Chinese and English and is available to download from the of□cial website of the Company (www.molonggroup.com) and the website of the Stock Exchange (www.hkex.com.hk).

Val able feedback

To continuously improve the environmental, social and governance performance of the Group, we value and welcome stakeholders and the public to share with us their views on this Report. Should you have any enquiries and recommendations, we are welcomed to contact the Group via the following channels:

Shandong Molong Petroleum Machinery Company Limited
Address: No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Postal code: 262700
Telephone: 0536-5100890
Email: dsh@molonggroup.com

Chai man' S a emen

Shandong Molong Petroleum Machinery Company Limited is a listed company that specialises in the design, process manufacturing, sales and exports of energy equipment. The Company entered into the petroleum equipment industry in 1987, with a goal of becoming an internationally reputable energy equipment manufacturer and service provider. The main products of the Company include but not limited to tubes, casings, special oil seamless pipes, sucker rods. The Company is a major supplier and strategic supplier of PetroChina, Sinopec, CNOOC and Yanchang Petroleum, and also one of the top four suppliers of PetroChina's Type I products. The Company has long been accredited ISO9001 international quality system certi□cation, ISO14001 and OHSAS18001 management system certi□cation. With the main products being approved to use the industry logo of American Petroleum Institute (abbreviated as "API"), the Company successfully gained access to the domestic and global oil □eld markets. The tubes and casings, precision stainless steel forgings, three kinds of oil pumping units and accessories produced by the Company are highly marketable globally in major oil-producing regions such as Europe, the Americas and the Middle East, and are well-received by local and overseas customers.

Recently, Shandong Molong has obtained 74 patents, of which 63 are utility model patent applications, 11 are invention patent applications. 72 of them have been listed as provincial technology innovations in Shandong. Shandong Molong has established the Shandong OCTG Engineering and Technological Research Center (山東省石油專用管工程技術研究中心). With the approval of Ministry of Human Resources and Social Security of the PRC, the Company set up a post-doctoral scientific research work station, which has become the "first nation-wide and industry-wide post-doctoral scientific research work station". The Company has been named as a high-new technology enterprise in Shandong and its technology centre has been recognised as a Shandong provincial enterprise technology centre.

Adhering to its principle of "encouraging all people, absorbing all thinks, collecting all contributions and creating all achievements" and through expansion of scale and extension of production chains, the Company has increasingly greater influence in the industry. In the future, the Company will persist on a customer-centered and market-oriented approach. With a key focus on developing and selling high-end, precision and advanced new products, the Company will capitalise on its industry strengths to strengthen the research and development of technology and service capability, form an economical, efficient, state-of-the-art and eco-friendly industry chain and develop a circular economy, with an aim at becoming an internationally renowned energy equipment manufacturer and service provider, so as to achieve steady and sustainable development of the Company.

Sustainable Development Strategies

In the meantime of promoting business development, the Group regards corporate social responsibility as an important affairs of its business development. As such, the Group proactively minimises the possible impacts to the environment arising from the course of business operations and is committed to make greater contribution to social development.

The Group always seek to integrate its sustainable development concepts into the overall corporate strategies, policies and business plans. During the year, the Company set up an environmental, social and governance task force, with a view to better managing the risks related to environmental, social and governance issues, and to promoting good and consistent practices of environmental, social and governance policy by all departments.

Environmental, social and governance task force consmemb18

Comm nica ion i h akeholde

The Group attaches great importance to the communication with stakeholders and actively build different kinds of channels for open and effective communication such as face-to-face interview, electronic media communications, various forms of meeting and industry exhibitions, so as to gain deeper understanding of their expectations and requests to the Group in respect of sustainable development, conduct materiality assessment, and thereby develop its development goals in the long run. Through continuously improving corporate governance structure and enhancing standard of business management, the Group aims to practically safeguard the legitimate interest of stakeholders including shareholders, government and regulators, suppliers and distributors, staff, customers and consumers, and the mass public in the community, and eventually achieve harmonious and mutual development of the Company and stakeholders.

S akeholde	E ,ec a ion and e e	Mode of comm nica ion
Shareholders/investors	Steady development and business compliance Good investment return Effective risk management Larger market share	General meetings Results presentations Press releases/announcements Investor surveys Enquiry calls
Government/regulators	Environmental compliance Corporate governance standard Community development	Phone calls/correspondence exchanges Site visits Regular reports
Suppliers and distributors	Integrity and mutual bene□ts Fair purchasing Long-term and stable partnership	On-site surveys and assessments Communication on quality Open purchase tenders Phone calls/correspondence exchanges
Staff	People-oriented Rational remuneration policy Harmonious employment relationship Safe workplace	Staff trainings Union activities Meetings of employee representatives Collection of feedback and justi□able suggestions
Customers and consumers	Honesty, trustworthiness, fairness and mutual bene□ts Product quality Comprehensive post-sales service system	Market service hotlines Sales of□ces Opinion survey
Mass public in community	Promoting social harmony and stability Support social services Promoting energy conversation and discharge reduction	On-site survey Environmental education Social welfare activities

A. En i onmen al

The Group practices a green and low-carbon development strategy, strictly complies with China's environmental protection legislations, regulations, policies and standards, including Environmental Protection Laws, Water Pollution Prevention and Control Law, Environmental Noise Pollution Prevention and Control Law, Air Pollution Prevention and Control Law and Prevention and Control of Environment Pollution Caused by Solid Wastes, Energy Conservation Law, Law on Promoting Clean Production as well as other laws and regulations and normative documents as to the governance of exhaust emission and wastes discharged to water and land, actively responds to climate changes, vigorously advance cleaner production, protects the environment and is dedicated to constructing a resource-saving and environment-friendly company.

The Company's board of directors believes that as of the □scal year ended 31 December 2019, the Group's annual cost of compliance g with environmental protection legislations, regulations, policies and standards are not significant. It is expected that such compliance cost to be spent in the future is also insignificant. The Board believes that the Group has taken adequate measures to reduce waste and pollution in accordance with applicable environmental legislation, regulations, policies and standards in the course of its work.

A1 Polic fo Red cing Emi ion and Achie emen

A1.1 P c f G ee H e Ga E a d Ac e e e

The greenhouse gas emission is one of the major causes to the current global warming. In order to prevent and reduce pollution, the Group takes the following measures to reduce greenhouse gas emission:

1. prefers to select low-energy-consumption and high-energy-ef□ciency products and renewable energy so as to reduce energy consumption;

2. avoids unnecessary business tips to reduce carbon emission from transport tools (i.e. airplanes) taken for business tips;

3. prefers to select local suppliers so as to reduce energy consumption generated from transportation cargo;

4. advances the importance of "Reducing Carbon Emission" among supply chains;

5. sets up ventilation, dust removal, decontamination and □ltering system in the plants so as to reduce exhaust emission and pollution;

6. uses environmental protection materials for decoration of the office building. Air quality detection is conducted prior to using such materials. Only quali□ed materials can be put into use.

The total greenhouse gas emissions of the Group in 2019 were approximately 91.61 ten thousand tonnes of carbon dioxide equivalent. Approximately 1.15 tonnes of carbon dioxide equivalent were produced for each tonne of products made.

A1.2 P c f Wa e Wa e D c a ge a d Ac e e e

The Group's production process and technology does not involve a lot of water usage or waste water discharges. Related measures are only applicable to the norms for general production and daily of□ce work:

1. Recycling water is used in the product production devices;

2. Water-saving signs are displayed on the office room, washroom, pantry, dining room and employee dormitory.

The total waste water discharge of the Group in 2019 were approximately 2.62 ten thousand tonnes. Compared to 2018, total volume of wastewater discharge by the Group significantly decreased , mainly attributable to the reduction of water consumption as a result of increasing the utilisation of recycled waste water, which lowered the volume of waste water discharge.

A1.3 P c f Red c g Wa e a d Ac e e e

1. optimizes the production processes and flows, improves the utilization rate of production materials, and reduces the quantity of waste materials;

2. classi□es hazardous wastes, labels hazardous wastes, and the □nal commissioning of quali□ed subcontractors for recycling and disposal of such hazardous wastes;

3. carries out a simple classification of general wastes, and sells them to the recyclable waste collectors on a regular basis;

4. recycles scrap iron produced in the processing processes;

5. prepares annual hazardous waste management plan, sets up indicators of amount of wastes required by the relevant departments, conducts a monthly assessment, and, if necessary, takes appropriate control measures to reduce waste;

6. reduces the leakage of various types of oil by strengthening management;

7. strengthens quality control to reduce waste caused by poor quality.

The total hazardous waste produced in 2019 was approximately 113.38 tonnes. Approximately 0.14 kilogram of hazardous waste was produced for each tonne of products made. Compared to 2018, total volume of hazardous waste produced by the Group in 2019 increased, mainly attributable to the listing of certain wastes as hazardous wastes during the year, and the higher production volume of the Company's products this year compared to the same period of last year, which correspondingly increased the discharge of hazardous waste in the course of production.

The total non-hazardous waste produced in 2019 was approximately 100 tonnes. Approximately 0.13 kilogram of non-hazardous waste was produced for each tonne of products made. Compared to 2018, the total amount of non-hazardous waste produced by the Group in 2019 increased by approximately 18.33%, mainly attributable to the increased orders during this year, leading to a higher production volume and thereby correspondingly increased the generation of non-hazardous waste.

A2 Effec i e U e of Re o ce

A2.1 G ee Of ce P c

1. reducing the use of resources at office, such as setting the printer mode from single-sided printing to double-sided printing;

2. wholly achieves paperless of□ce within the Group;

3. reminds employees and visitors to save water during daily operation;

4. using automatic faucets and LED energy-saving lights in the of□ce buildings;

5. reminds employees to control the power and fuel for running the office air conditioning, lighting, machinery and equipment and vehicles;

6. uses energy-saving power supply for plant lighting, transparent tiles, and take full advantage of natural lighting.

A2.2 G ee Ma fac g P c

1. optimises production processes and □ows, improves the utilization rate of production materials, and reduces the quantity of waste materials;

2. uses environmental-protection and emission-reduction production materials, and fully uses cleaner energy for production;

3. adopts new technologies or green processes to reduce pollutants.

A2.3 U e f Re ce a d Ac e e e

1. The energy consumed by the Group comprises mainly electricity, gasoline, diesel fuel and natural gas. The direct and indirect energy consumption in total in 2019 was approximately 49.18 ten thousand tonnes of standard coal and the energy consumption per tonne of product was approximately 0.62 tonne of standard coal;

2. Compared to 2018, the Group's total energy consumption volume significantly increased in 2019, mainly attributable to the increase in the Company's production volume.

A2.4 De c f U e f Wa e Re ce a d Ac e e e f Red c g Wa e U age

1. The water source used by the Group is the tap water provided by the government. The quality is reliable and the amount of water is suf□cient. No accidental water stoppage occurred in 2019.

2. The Group consumed a total of approximately 43.17 ten thousand cubic of water in 2019. The water consumption per tonne of products was approximately 0.54 cubic;

3. Compared to 2018, the Group's total water consumption volume increased in 2019, mainly attributable to the Company's increased production volume, resulting in higher water consumption.

A2.5 T a A f Pac ag g Ma e a

1. According to customer's requirements, the Group uses simple materials such as protective covers and caps to carry out simple packaging of the products.

2. In 2019, the Group consumed approximately 132.95 ten thousand casing caps, approximately 131.51 ten thousand casing covers and 23.44 ten thousand line pipe covers. The increased consumption of covers, caps and other materials was mainly attributable to the increase in production volume of the Company.

A3 Policie fo Red cing he Signi can Im ac on En i onmen and Na al Re o ce

The Group worked closely with local environmental inspection departments on periodic supervisory inspections, and engaged third party inspection rms to monitor the discharge statistics on an irregular basis, with an aim to meet industry standards and requirements of local environmental authorities. Monthly sample testing on the related environmental statistics, supervision on stable operation of wastewater and exhaust treatment facilities are conducted by all production units to effectively strengthen the management of internal discharge of wastewater and exhaust. In 2019, the Company invested in 4 additional sets of online monitoring equipment, which have already connected with the platform of government. The discharge permits of the Group were all valid.

Wastewater treatment facilities: The Company has equipped production lines in all production complexes with integrated sewage treatment facilities which were in normal operation. Wastewater discharged from production process were treated and recycled.

Exhaust treatment facilities: The Company has equipped production lines in all production complexes with denitration and electrostatic/electric precipitator and fabric lter, to ensure effective treatment and discharge of exhausts and ne dusts generated from the production process.

The Group and each of its subsidiaries has engaged a quali ed rm to prepare its emergency plans for sudden environmental incidents, which have been led to environment authorities after reviewed by experts. They also organised trainings and drills to strengthen the control of environmental risks.

Other policies:

1. provides green products and green operation ows;

2. all products are accredited by the industry to meet the product's environmental protection requirements;

3. strictly prohibits the use of asbestos within the plant;

4. develops training plans to constantly improve the employee's environmental protection awareness and on-site environmental protection and control ability via training;

5. To promote green environmental protection along the supply chain, and set environmental protection as a criterion when assessing suppliers.

B. Social

Strong sense of social responsibility, environmental protection, environmental security and economic sustainable development is the key factor to ensure the success of the business. In business development and other social activities, the Group maintains a view of values of being tolerant, open, reliable and cooperative, and introduces effective measures to ensure that the Group's policy in the society, safety and environment can be fully implemented. These measures relate to our employees, business associates, supply chain partners and individual communities and cultures in the world.

Em lo men and Labo P ac ice

The Group strongly recognises that employees are important assets, and makes efforts to improve the following four areas, including employment, health and safety, development and training, and labor standards. As of the date of this report, the Group has not received any complaints and illegal notices relating to the employment of workers, and there are no reports of violations of the relevant occupational health and safety legislation, and the number of working days lost due to work-related injuries.

The Group is in strict compliance with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, and the Trade Union Law of the People's Republic of China and other national laws and regulations, and has developed and continuously optimised its human resources management system in the areas of staff recruitment, promotion, remuneration and bene□ts, social insurance and rest periods. All these initiatives have enabled the Group to practically safeguard the entitlement of labour interest of staff and promote harmonious employment relationship. Meanwhile, we took active steps in achieving a fair and just human resources management system by eliminating any bias or discrimination among employees on the basis of gender, race, nationality, physical condition, religion, marital status and other factors.

B1. E , e

The Group has formulated and implemented a set of human resource policies and procedures, including the Group's recruitment, trainings, promotion guidelines, remuneration determination and adjustment, holidays and statutory paid holidays, maternity leave and working hours to ensure equal treatment for all employees. Their employment, remuneration and promotion opportunities are not affected by nationality and ethnicity and any form of discrimination is strictly prohibited. The Group complies with the provisions of China's Labor Contract Law and the related employment laws to provide a good and safe working environment for employees. In addition, the Group and other subsidiary have reached the local (including Hong Kong) minimum wage standards.

In order to enhance the ability to hire all kinds of talents, on the premises of stabilise the salary of staff and incentivise staff with performance-based approach, our compensation system is based on position and

In addition, the Group will also purchase additional commercial insurance for a part of the employees who has reached a certain seniority, in order to improve the additional security of employees. To encourage employee to stay in the job for a longer term and also encourage older employees to continue to shine and make greater contributions to the Company, the Company also implements a non-descending calculation method for length of employment, which is more humanised, rationalised and attractive than surrounding companies. Employee bene□ts are also included: free shuttle bus, accommodation and meal allowance, etc.

As at 31 December 2019, the Group had a total of 3,213 (2018: 3,233) employees and the ratio of male to female was 3.48 : 1 (2018: 3.67 : 1). The ratio of of□ce management staff to production and operation staff was 1 : 11 (2018: 1 : 11). Approximately 92% of the employees were stationed in Shandong. Approximately 90.20% of the employees were 50 years old or below, and approximately 21.92% of employees were below 30 years old.

B2. Hea a d Safe

Safety and health are the primary safeguards of the lives and work. Adhering to the approach of "safety □rst, precaution is key and go for integrated treatment", the Group strictly complies with the Production Safety Law of the People's Republic of China, Regulation on Work-related injury Insurance of the People's Republic of China, the Laws of the People's Republic of China on Occupational Diseases, Regulation on Management of Labour Protection and the relevant laws and regulations. The Group also continuously improves its health and safety management system and increases investment in safety, eliminates hidden danger in a timely manner, ensures corporate safety production and seeks to protect physical and mental health and safety of staff.

The Group is committed to providing a safe and healthy working environment for employees and workers, and has taken the necessary work security measures to prevent the occurrence of industrial accidents and reduce the risks of the project. The Group according to the job requirements for different positions, develops work safety guidelines for employees, provides regular work safety training to the employees, conducts regular on-site safety inspection, and requires workers to use safety equipment, provides sufficient and appropriate protective equipment and requires workers and employees to wear such safety protection gears before stepping into production plants. In addition, the Group takes appropriate measures to ensure that all technician, including electrician and welders are special trained and have all the required licenses or quali□cations. The Group has project supervisors and safety of□cers for each production project to evaluate and strictly implement safety measures and emergency plans in the course of production, comply with national and industry standards procure and inspect protective equipment, and assess of production lines of the speci□c requirement of the type of work, so as to achieve on-demand distribution, regular replacement, and on-site supervision of such protective equipment. Moreover, the Group also sets up bulletin boards to publish guidelines on safety in production to improve the safety awareness of workers on the production line. When the safety of the person is in danger, any person has the right to stop operations to prevent accidents.

The Group is highly concerned about the health and safety of employees, is dedicated to improving the working environment to prevent occupation disease. We actively respond to issues relevant to occupation health and safety put forward by employees, and recognize and reward such employees making contribution to the continuous improvement topics of occupation health and safety. We also ensure that all employees understand and are responsible for their own safety and the safety of the affected persons. The Group provides PPE for employees, such as helmets, protective glasses, protective masks, protective gloves, safety belt, semi faced and full faced filtering respirators. The human resources department each year arranges qualified medical institutions to conduct physical examination for employees who may suffer occupation diseases and follow up individual cases. In addition, the Group also attaches great importance to the development of mental health of employees, and carries out group exchange and other activities to relieve the employees' pressure at work.

Occupational health and safety management is included in the performance appraisal of various departments, and specialized departments monitor and supervise occupational health and safety management regularly and irregularly. In 2019, the Group did not experience any fatal work-related incidents or accidents involving serious injury.

B3. Ta_ _ g a d De e e

The Group focuses on the cultivation of potential talents, and has a training staff dedicated to training. The Group, through systematic training curriculum, matches the talent's ability with its strategies to effectively inherit technology and company culture, and to achieve knowledge integration. In addition, the Group, through a sharing training mode featured with "Inheriting, Helping and Leading", promotes all of its employees to achieve ability self-improvement. The Group focuses on the development of the management and technical talents, including talents with potentials, key professional talents, key management talents, technical experts and etc. Moreover, the Group also advocates mutual cooperation with talents, so that, in three to five years, such talents, with accumulated experience, will form the backbone force for the Group's continuous development.

The Company attaches importance to talent training, and provides occupation career planning and organizes various training for employees, to enhance the quality of employees, so as to achieve common development of employees and the company. In order to improve the overall quality of the employees and work efficiency, the human resources department, at the end of each year, will develop next year's training plan, including training needs analysis, content, time, attendance and training effectiveness evaluation. The Company, through its learning platform, lectures of internal lecturers and external lecturers, network learning and etc. and according to strategic targets and the needs of development, provides new employees with training in the areas such as management and leadership, professional image and etiquette, enhancement of the professional skills, job skills, etc.

The Group enhances the competence of its employees by a combination of internal trainings and external trainings. The implementation rate of training programmes in 2019 was 100%. Internal trainings carried out in 2019 included occupational health education and training, non-destructive testing knowledge training, fire safety training, QES management manual replacement training, product standards and operation speci□cation training, dual-system safety training, skill and technique training, and API accreditation training etc. External trainings carried out in 2019 included tax audit training, safety management training, comprehensive budget management and performance control, lean production management training, 2019 new tax policy application and explanation and analysis of key points and dif□culties in calculating and settlement of income tax, basic knowledge of measurement and threads, new API edition training, coordination and management of "3+5" tax system under the latest tax reform, China Classi□cation Society Certi□cation standards training, risk-oriented corporate auditing and strengthening competence of internal auditors, management system standard training etc.

B4. Lab S a da d

The Group has been creating equal employment opportunity. The Group has recruited talents for each vacancy through Internet or other appropriate channels and fairly selected appropriate talents in accordance with the ability, skills and other requirements of applicants. We will not reject any applicants because of their race, color, sex, language, religion, politics or other factors.

The Group has been advocating a principle of balance between work and family. We do not encourage overtime work. Even if the departments need to work overtime temporarily, we will, through the overtime approval process, strictly control the overtime working hours. Any overtime work shall need to be approved by the Department Manager, and be complied with local labor laws and ensured that employees have enough time to rest, so as to prevent the employees from suffering from serious reduced quality of life because of long working hours and meanwhile reduce the risk of any possible work-related accident due to long working hours.

The Group strictly complies with the relevant child labor and forced labor employment ordinance and other laws of the places where it operates. All applicants must provide proof of identity for veri□cation. Before we enter into employment contracts with the employees, we give employees suf□cient time to read carefully and understand the relevant content of the contracts. We only sign related employment contracts with employees after they fully understand such contracts.

O e a ing P ac ice

Good corporate governance is a symbol of corporate modernization and a prerequisite for sustainable development of the corporate. The Group has been investing a large number of resources and human resources to develop appropriate corporate governance practices according to the business needs, and to conduct continuous integration of the essence of corporate governance which is incorporated into the management structure and internal control procedures. Meanwhile, the Group is also dedicated to maintaining the highest moral integrity, so that all business activities can achieve the highest standards or best practices, to ensure that our actions can fully comply with applicable laws and regulations.

The Group is committed to continuously improving the performance and quality of products and services, reaching a high moral level as a company in terms of supply chain management, internal control and product quality assurance, and ensuring its compliance with the standards established based on relevant laws and regulations to meet industry and customer expectation. The realization of comprehensive corporate governance at a high standard will enable the Group to be more ef□cient as to each topic of the Group's sustainable development and help maintain and increase the stakeholders' interests.

B5. S , , C a Ma age e

The Group has formulated "Material Procurement and Management System". The Group, according to a series of quantitative criteria, such as, the compliance conditions, price, quality, supply stability, timely delivery rate, incoming passing rate, customer complaints and customer service, strictly selects suppliers and, according to the evaluation results of suppliers, maintains a long-term and stable relationship with suppliers. The Group implements a strict test and control ow in the process of production. In the incoming material warehousing and production stage, the Group continues to monitor the quality of the materials provided by the external suppliers. Meanwhile, the Group also implements different warehouse storage managements according to the production materials provided by suppliers. As of the date of this report, the Group has been exposed to no signi cant risks related to the supply chain at environment and society levels.

As at 31 December 2019, the Group had approximately 360 quali ed suppliers, all of them were located in the PRC.

B6. P d c Re, b

Product safety and quality is the top priority of the Group. In order to better achieve the goals of the Group in terms of product quality and ensure the products we provide can meet the requirements of customers and applicable laws and regulations, the Group has developed its own quality (Q), environmental (E) and safety (S) management system and prepared its QES Management Manual based on GB/T19001-2016 Management System Requirements, GB/T28001-2011 Occupational Health and Safety Management System Requirements, GB/T24001-2016 Environmental Management System Requirements and API SpecQ1 Specification for Quality Management System Requirements for Manufacturing Organizations for the Petroleum and Natural Gas Industry.

All products of the Group must be tested for quality. Its design, manufacturing, installation and test must comply with the requirements of relevant standards and specifications and also technical requirements, meanwhile also must meet the requirements of relevant design parameters. In addition, all products must accept and pass strict quality and safety veri cation:

1. Material inspection: all raw materials must be inspected in accordance with the drawings, standards, speci cations, technical agreements. Only quali ed materials can be stored in the warehouses;

2. Production process: the Group implements process verification and testing. Only qualified semi- nished products can ow into the next process;

3. Finished product inspection: the Group implements nished product inspection, and provides quali ed product report before delivery;

4. Control of unquali ed products: when any unquali ed product is found in the inspection process, the unqualified products will be analyzed and processed. The Group strictly prohibits any unqualified products from continuing to ow in the manufacturing process.

The Group has developed speci c measures covering the quality of products and services and safety, to ensure a compliance with the legislation and regulations. Upon receiving any complaints, the Company will immediately assess such complaints and conduct an investigation on that matter, in order to identify the problem, and make a correction in the practical situation as soon as possible. As of the date of this report, there were no disputes or related litigation threatened against the Group relating to product liability.

The Group encourages its employees to apply for patents and present papers. As at 31 December 2019, the Group had 11 invention patents, 63 utility model patents. In 2019, the Group applied for 1 invention patent and 5 utility model patents.

To ensure information security, full-time or part-time staff are deployed to perform centralised management of computer systems and networks. Through enhancing the management of labour discipline and streamlining work procedures, the risk of leakage of corporate information is kept to minimal. In 2019, the Group did not receive any complaints or involve in any proceedings relating to leakage of information.

B7. A -c , -

The Group insists on implementing a high standard of business ethics throughout the entire operation process. In its daily operations, the Group does not tolerate any form of corruption or bribery based on a fair and equitable principle. At the same time, such principle also is the code of conduct of the Group as to its

Comm ni

With the market's concerns on the behavior of corporates, the pursuit of maximum short-term financial performance to return to shareholders is no longer the only goal of corporate management. As a responsible corporate, the Group is dedicated to extending its concerns from its own operation to the public. The Group believes that employees are the core strength to create value for the society. The Group will continue to gather power of all to increase engagement of communities, and to balance the interests between shareholders and other stakeholders to bring more positive impact to the society. Meanwhile, the Group has, through various channels, irregularly communicated with all stakeholders, including customers, employees, community organizations and government agencies etc., to achieve open and transparent operation and to understand each other's expectations of corporate social responsibility, so that the Group can achieve the goal of sustainable business development maintain a good relationship with the communities it operates in.

B8. C E gage e

The management of the Group have been adhering to the concept of establishing a harmonious society and a harmonious community, leading all employees to actively participate in organizing and strengthening a good community environment, and actively organizing and participating in various communicative activities in the community, so as to promote humanities construction of the harmonious community. The Group has developed relevant policies and measures, in order to understand the needs of the community. Making contributions to the community and maintaining a harmonious relationship with the stakeholders in the business areas is essential for the Group's sustainable development. The Company has also underwritten all kinds of social insurances for the employees and established support funds to care for and subsidise employees who have nancial dif culties, so as to create a harmonious working atmosphere. As of the date of this report, the Group has been actively participating in various community activities, which are shown below:

1. In May 2019, to further enrich the lives of employees with spare-time culture, and better demonstrate the staff spirit of the Company, and enhance the cohesiveness and sense of belonging of the Company, the trade union of the Company, took the lead in orgainising the event called the Month of Cultural and Sports Activities, which was participated in by lots of colleagues. The activities included chess games, basketball set shots, ping-pong and basketball tournaments and sprint races. These activities allowed our employees (ei/Acny)9sansa8gi0a2he 1community ts ss, t hut to undgy tas Co ac 0 Montmsel

Annex: Index for ESG Reporting Guide of Shandong Molong for 2019

A ec	T e	Inde No.	Pa ic la	Loca ion in hi e o
A Environmental	A1 Emissions Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a signi□cant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	A1.1	The types of emissions and respective emissions data.	A Environmental — Policy for Reducing Emissions and Achievement
		A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A Environmental — Policy for Reducing Emissions and Achievement
		A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A Environmental — Policy for Reducing Emissions and Achievement
		A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A Environmental — Policy for Reducing Emissions and Achievement
		A1.5	Description of measures to mitigate emissions and results achieved.	A Environmental — Policy for Reducing Emissions and Achievement
		A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	A Environmental — Policy for Reducing Emissions and Achievement
	A2 Use of Resources Policies on the ef□cient use of resources, including energy, water and other raw materials	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	A Environmental — Effective Use of Resources
		A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	A Environmental — Effective Use of Resources
		A2.3	Description of energy use ef□ciency initiatives and results achieved.	A Environmental — Effective Use of Resources
		A2.4	Description of whether there is any issue in sourcing water that is □t for purpose, water ef□ciency initiatives and results achieved.	A Environmental —Effective Use of Resources
		A2.5	Total packaging material used for □nished products (in tonnes) and, if applicable, with reference to per unit produced.	A Environmental —Effective Use of Resources
	A3 The Environment and Natural Resources Policies on minimising the issuer's signi□cant impact on the environment and natural resources.	A3.1	Description of the signi□cant impacts of activities on the environment and natural resources and the actions taken to manage them.	A Environmental — Effective Use of Resources

A ec	T e	Inde No.	Pa ic la	Loca ion in hi e o
B Social	B1 Employment Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a signi□cant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other bene□ts and welfare.	B1.1	Total workforce by gender, employment type, age group and geographical region.	B Social — Employment
		B1.2	Employee turnover rate by gender, age group and geographical region.	B Social — Employment
	B2 Health and Safety Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a signi□cant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	B2.1	Number and rate of work-related fatalities.	B Social — Health and Safety
		B2.2	Lost days due to work injury.	B Social — Health and Safety
		B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	B Social — Health and Safety
	B3 Development and Training Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	B Social — Training and Development
		B3.2	The average training hours completed per employee by gender and employee category.	B Social — Training and Development
	B4 Labour Standards Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a signi□cant impact on the issuer relating to preventing child and forced labour.	B4.1	Description of measures to review employment practices to avoid child and forced labour.	B Social — Labour Standards
		B4.2	Description of steps taken to eliminate such practices when discovered.	B Social — Labour Standards

A ec	T e	Inde No.	Pa ic la	Loca ion in hi e o
B Social	B5 Supply Chain Management Policies on managing environmental and social risks of the supply chain.	B5.1	Number of suppliers by geographical region.	B Social — Supply Chain Management
		B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	B Social — Supply Chain Management
	B6 Product Responsibility Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a signi□cant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	B Social — Product Responsibility
		B6.2	Number of products and service related complaints received and how they are dealt with.	B Social — Product Responsibility
		B6.3	Description of practices relating to observing and protecting intellectual property rights.	B Social — Product Responsibility
		B6.4	Description of quality assurance process and recall procedures.	B Social — Product Responsibility
		B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	B Social — Product Responsibility
	B7 Anti-corruption Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a signi□cant impact on the issuer relating to bribery, extortion, fraud and money laundering.	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	B Social — Anti-corruption
		B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	B Social — Anti-corruption
	B8 Community Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	B Social — Community
		B8.2	Resources contributed (e.g. money or time) to the focus area.	B Social — Community

XI. Corporate Bonds

Whether the Company had any corporate bonds which were publicly issued and listed on a stock exchange, and which have not matured, or have matured but not fully repaid as at the date of publication of annual report

No

Auditor's Report

Type of audit opinions	Standard unqualified opinions
Date of signing of auditors report	27 March 2020
Name of auditors	Shinewing Certified Public Accountants (Special General Partnership)
Auditors report file number	XYZH／2020JNA30119
Names of the CPAs	Kan Jing Ping, Zhang Xiu Qin

1. Recogni ion of Re en e

Ke A di Ma e

As stated in note IV.31 and note VI.39 to the consolidated nancial statements, operating revenue of Shandong Molong for 2019 amounted to RMB438,890.42 ten thousand. The recognition of revenue was relatively signi cant to the net pro t.

There are inherent risks in revenue recognition, and there is a signi cant risk of material misstatement whether the revenue is complete and accurately accounted in the appropriate accounting period. Therefore, we identify the Shandong Molong's revenue recognition as a key audit matter.

Ho he ma e a add e ed in he a di

We mainly performed the following audit procedures:

— understand and evaluate the management's

2. Im ai men of acco n ecei able

Ke A di Ma e

As mentioned in Notes IV.12 and VI.3 and VI.47 to the consolidated nancial statements of Shandong Molong, as at 31 December 2019, Shandong Molong had accounts receivables of RMB63,555.83 ten thousand and a balance of provision for bad debts of RMB12,799.93 ten thousand.

There may be risks in recovery of accounts receivables and the assessment of bad debts involves signi cant management judgment and estimates.

Ho he ma e a add e ed in he a di

We mainly performed the following audit procedures:

— Understanding and evaluating the design and operational effectiveness of the key internal control by management relating to impairment of accounts receivable;

— Reviewing the historical credit loss experience data used by management of Shandong Molong to calculate expected credit loss rates and the reasonableness of key assumptions by combining with debtor's credit history, historical default evidence and default rates, and the changes in observed nancial credit status of debtors for the year, to determine whether the credit risk of receivables has increased signi cantly, thereby assessing the reasonableness of the credit risk assessment and identi cation of receivables by management;

— Obtaining the expected credit loss model of accounts receivable of Shandong Molong, checking management's assumptions and calculation process of expected credit losses, analysing whether the basis of bad debt provision for accounts receivable is suf cient and reasonable, and remeasuring to con rm if the bad debt provision amount is accurate;

— Analysing the payment of the accounts receivable and the occurrence of bad debts of Shandong Molong in the current and previous years by combining management's evaluation on the historical, current and subsequent payment, understanding the possible recovery risks, analyzing the reasonableness of the provision for bad debts of receivables by management;

— assessing the appropriateness of the accounting of provision for accounts receivable by management of Shandong Molong and the presentation of and disclosures in the nancial statements.

3. Im ai men of In en o ie

Ke A di Ma e

As mentioned in Notes IV.15, VI.8 and VI.48 to the consolidated nancial statements of Shandong Molong, as at 31 December 2019, Shandong Molong had a balance of inventories of RMB95,663.48 ten thousand and a balance of provision for impairment of inventories of RMB2,172.74 ten thousand.

Shandong Molong regularly estimates the net realizable value of inventories, and recognizes the inventory declining loss for the difference between the inventory cost and the net realizable value. Due to the complexity of the impairment testing process, Shandong Molong's management needs to make signi cant judgments and assumptions in its predictions. Therefore, we make provision for impairment of inventory a key audit matter.

Ho he ma e a add e ed in he a di

We mainly performed the following audit procedures:

— Understand and evaluate the effectiveness of the design and operation of key internal controls related to inventory impairment;

— Perform inventory monitoring procedures for inventory, check inventory quantity and condition, etc.;

— Obtain the list of end-of-year inventory of Shandong Molong, and conduct an analytical review of inventory with a longer history;

— Check the previous year's impairment of inventory and the changes of the impairment in the current year;

— Inquire about the changes in raw material prices during the year and understand the trend of raw material prices in 2019. Check whether the Management considers these factors to have an impact on the impairment of Shandong Molong's inventory;

— Obtain information such as subsidiary ledger of inventory impairment, perform inventory impairment testing procedures, check and analyze the reasonableness of the net realizable value, and assess the correctness of accrual of inventory impairment;

— Assessing the appropriateness of the accounting of provision for impairment of inventories by management of Shandong Molong and the presentation of and disclosures in the nancial statements.

(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 is related to events or conditions that may cast signi□cant doubt on Shandong Molong'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 □nancial statements in accordance with the auditing standards or, if such disclosures are inadequate, we should express a modi□ed 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 □nancial statements, and also evaluate whether the □nancial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain suf□cient and appropriate audit evidence regarding the □nancial information of Shandong Molong entities or business activities to express an opinion on the consolidated □nancial statements. We are responsible for the directing, supervising and conducting the Company audit and take full responsibility for the audit opinion.

We communicate with the governance on the planned audit scope, time arrangement, signi□cant audit □ndings and other issues, including any signi□cant internal control de□ciencies that we identi□ed during the audit.

We also provide the governance with a statement that we have complied with those relevant ethical requirements regarding independence, and communicate with the governance about all relationships and other matters that may reasonably be considered to affect our independence and relevant precautions, if applicable.

From the matters communicated with the governance, we determine matters that are the most important to the audit of □nancial statements for the current period, and therefore constitute the key audit matters. We describe these matters in our auditor's report unless the law or regulation prohibit public disclosure of these matters, or in rare circumstances, we determine that a matter should not be communicated in our report if the negative consequences of such communication would reasonably be expected to outweigh the bene□ts produced in the public interest.

Shinewing Certi□ed Public Accountants (Special General Partnership) PRC certi□ed public accountants: (Project Partner)

PRC certi□ed public accountants:

Beijing, China 27 March 2020

Consolidated Balance Sheet

Unit: RMB

Item	31 Decembe 2019	31 December 2018
C en a e :		
Monetary funds	**539,942,128.18**	892,452,274.76
Settlement Deposits		—
Lending funds		—
Financial assets held for trading		—
Financial assets at fair value through pro□t or loss		—
Derivative □nancial assets		—
Bills receivable	**257,635,279.11**	271,735,086.30
Accounts receivable	**507,559,024.95**	536,199,939.96
Financing receivables	**96,155,523.75**	111,166,610.00
Loans and advances	**17,046,915.97**	38,561,702.67
Prepayments	**41,184,464.45**	30,978,235.20
Insurance receivables		—
Reinsurance receivables		—
Reinsurance contract reserves receivable		—
Other receivables	**29,289,226.01**	47,697,703.66
Including: Interests receivable	**2,308,030.91**	2,710,659.25
Dividends receivable		—
Purchases of sell-back □nancial assets		—
Inventories	**934,907,320.58**	1,042,761,257.01
Contract assets		—
Assets held for sale		—
Non-current assets due within one year		—
Other current assets	**35,206,341.97**	144,802,505.41
To al c en a e	**2,458,926,224.97**	3,116,355,314.97

Consolidated Balance Sheet

Unit: RMB

I em	31 Decembe 2019	31 December 2018
Non-c en a e :		
Loans and advances		—
Debt investments		—
Available-for-sale nancial assets		—
Other debt investments		—
Held-to-maturity investments		—
Long-term receivables		—
Long-term equity investments	**2,557,061.01**	2,663,518.90
Investments in other equity instruments		—
Other non-current nancial assets		—
Investment properties		—
Fixed assets	**2,726,157,716.13**	2,915,815,731.99
Construction-in-progress	**55,034,853.27**	35,871,296.86
Productive biological assets		—
Oil and gas assets		—
Right-of-use assets		—
Intangible assets	**443,223,548.01**	452,046,844.13
Development expenditures		—
Goodwill		23,683,383.21
Long-term deferred expenses		—
Deferred income tax assets	**40,231,904.91**	47,256,488.04
Other non-current assets	**9,621,036.29**	13,844,015.27
To al non-c en a e	**3,276,826,119.62**	3,491,181,278.40
To al a e	**5,735,752,344.59**	6,607,536,593.37

Consolidated Balance Sheet

Unit: RMB

I em	31 Decembe 2019	31 December 2018
C en liabili ie :		
Short-term borrowings	**1,929,510,883.39**	2,390,918,560.77
Borrowings from the central bank		—
Placements		—
Financial liabilities held for trading		—
Financial liabilities at fair value through pro□t or loss		—
Derivative □nancial liabilities		—
Bills payable	**281,588,603.88**	278,902,047.79
Accounts payable	**924,020,613.80**	821,162,695.81
Receipts in advance		—
Contract liabilities	**32,463,654.22**	57,364,400.72
Proceeds from disposal of buy-back □nancial assets		—
Customer bank deposits and due to banks and other □nancial institutions		—
Securities brokerage deposits		—
Securities underwriting brokerage deposits		—
Salaries payable	**57,276,942.10**	57,100,793.80
Taxes payable	**13,393,461.51**	81,227,045.72
Other payables	**61,423,531.25**	51,344,753.68
Including: Interests payable	**6,389,751.57**	8,691,627.11
Dividends payable		—
Brokerage and commission payables		—
Reinsurance payables		—
Liabilities held for sale		—
Non-current liabilities due within one year	**482,636,906.78**	308,994,908.08
Other current liabilities	**87,557,572.20**	94,281,027.25
To al c en liabili ie	**3,869,872,169.13**	4,141,296,233.62

Consolidated Balance Sheet

Unit: RMB

I em	31 Decembe 2019	31 December 2018
Non-c en liabili ie :		
Insurance contract reserves		—
Long-term borrowings		426,219,050.90
Bonds payable		—
Including: Preferred shares		—
Perpetual bonds		—
Lease liabilities		—
Long-term payables	**58,045,884.69**	—
Long-term salaries payable		—
Estimated liabilities	**5,734,176.25**	12,780,330.57
Deferred revenue	**7,386,306.54**	6,954,855.00
Deferred income tax liabilities	**5,754,299.38**	6,126,499.96
Other non-current liabilities		—
To al non-c en liabili ie	**76,920,666.86**	452,080,736.43
To al liabili ie	**3,946,792,835.99**	4,593,376,970.05
O ne 'e i :		
Share capital	**797,848,400.00**	797,848,400.00
Other equity instruments		—
Including: Preferred shares		—
Perpetual bonds		—
Capital reserve	**863,169,158.42**	863,169,158.42
Less: Treasury shares		—
Other comprehensive income	**(3,055,060.57)**	(2,792,011.13)
Special reserve		—
Surplus reserve	**187,753,923.88**	187,753,923.88
General risk provision	**11,236.91**	11,236.91
Undistributed pro□ts	**(98,208,687.79)**	98,100,580.11
To al e i a ib able o o ne of he ,a en com ,an	**1,747,518,970.85**	1,944,091,288.19
Mino i in e e	**41,440,537.75**	70,068,335.13
To al o ne 'e i	**1,788,959,508.60**	2,014,159,623.32
To al liabili ie and o ne 'e i	**5,735,752,344.59**	6,607,536,593.37

Legal representative:	Accountant-in-charge:	Partner-in-charge:
Liu Yun Long	Liu Min	Ding Zhi Shui

Unit: RMB

I em	31 Decembe 2019	31 December 2018
C en a e :		
Monetary funds	**515,419,364.09**	824,263,679.90
Financial liabilities held for trading		—
Financial assets at fair value through pro□t or loss		—
Derivative □nancial assets		—
Bills receivables	**257,635,279.11**	271,735,086.30
Accounts receivable	**614,469,903.11**	618,706,266.35
Financing receivables	**13,745,135.20**	147,210,000.00
Prepayments	**466,070,802.57**	463,225,881.58
Other receivables	**742,034,322.28**	461,207,511.04
Including: Interests receivable	**2,308,030.91**	2,710,659.25
Dividends receivable		—
Inventories	**627,068,241.69**	726,969,869.08
Contract assets		—
Assets held for sale		—
Non-current assets due within one year		—
Other current assets		—
To al c en a e	**3,236,443,048.05**	3,513,318,294.25

Balance Sheet of the Parent Company

Unit: RMB

I em	31 Decembe 2019	31 December 2018
Non-c en a e :		
Debt investments		—
Available-for-sale nancial assets		—
Other debt investments		—
Held-to-maturity investments		—
Long-term receivables		—
Long-term equity investments	**1,144,019,921.73**	1,144,069,921.73
		Non-curr-sale nancial assets

Balance Sheet of the Parent Company

Unit: RMB

I em	31 Decembe 2019	31 December 2018
C en liabili ie :		
Short-term borrowings	**1,765,910,883.39**	1,803,918,560.77
Financial liabilities held for trading		—
Financial liabilities at fair value through pro□t or loss		—
Derivative □nancial liabilities		—
Bills payable	**456,088,603.88**	883,985,816.54
Accounts payable	**318,744,403.11**	276,462,082.53
Receipts in advance		—
Contract liabilities	**28,059,132.72**	27,434,932.72
Salaries payable	**37,751,734.57**	37,934,242.75
Taxes payable	**10,297,524.70**	39,143,651.71
Other payables	**151,446,321.31**	

Balance Sheet of the Parent Company

Unit: RMB

I em	31 Decembe 2019	31 December 2018
To al liabili ie	**3,249,333,645.06**	3,662,970,251.01
O ne ’e i :		
Share capital	**797,848,400.00**	797,848,400.00
Other equity instruments		—
Including: Preferred shares		—
Perpetual bonds		—
Capital reserve	**863,150,490.92**	863,150,490.92
Less: Treasury shares		—
Other comprehensive income		—
Special reserve		—
Surplus reserve	**187,753,923.88**	187,753,923.88
Undistributed pro□ts	**508,891,540.57**	471,390,320.79
To al o ne ’e i	**2,357,644,355.37**	2,320,143,135.59
To al liabili ie and o ne ’e i	**5,606,978,000.43**	5,983,113,386.60

Consolidated Income Statement

Unit: RMB

Item		2019	2018
I.	**Total operating revenue**	**4,388,904,215.91**	4,452,014,810.12
	Including: Operating revenue	**4,388,904,215.91**	4,452,014,810.12
	Interest income		—
	Insurance premium earned		—
	Brokerage and commission income		—
II.	**Total operating cost**	**4,547,980,146.59**	4,368,803,923.82
	Including: Operating costs	**4,034,622,745.27**	3,760,482,732.11
	Interest expenses		—
	Brokerage and commission expenses		—
	Surrenders		—
	Net amount of compensation paid		—
	Net amount of reserves for reinsurance contract withdrawn		—
	Insurance dividend payments		—
	Reinsurance premiums		—
	Taxes and surcharges	**25,254,426.66**	39,442,851.14
	Selling expenses	**84,340,449.53**	113,969,714.60
	Administrative expenses	**193,606,016.95**	178,822,233.92
	Research and development expenses	**63,830,329.90**	71,979,056.24
	Finance expenses	**146,326,178.28**	204,107,335.81
	Including: Interest expenses	**159,146,751.07**	203,251,721.32
	Interest income	**8,791,007.22**	7,381,164.96
	Add: Other gains	**14,032,294.31**	29,456,919.93
	Investment income	**3,384,366.15**	1,370,779.21
	Including: Gains on investment in associates and joint ventures	**(106,457.89)**	24,197.42
	Gain on derecognition of financial assets measured at amortised cost		—
	Exchange gains		—
	Net gains on exposure hedges		—
	Gain on fair value changes		—
	Credit impairment losses	**(17,003,268.54)**	(37,813,973.27)
	Asset impairment losses	**(37,538,995.67)**	(10,603,105.42)
	Gains on disposal of assets	**7,152,864.22**	3,501,489.47
III.	**Operating profit**	**(189,048,670.21)**	69,122,996.22
	Add: Non-operating income	**9,730,641.34**	6,366,554.82
	Less: Non-operating expenses	**35,909,103.13**	14,327,049.92
IV.	**Total profit**	**(215,227,132.00)**	61,162,501.12
	Less: Income tax expenses	**9,680,705.56**	(41,243,965.51)

Consolidated Income Statement

Unit: RMB

Item		2019	2018
V.	**Net profit**	**(224,907,837.56)**	102,406,466.63
	(I) By business continuity		—
	1. Net profit from continuing operations	**(224,907,837.56)**	102,406,466.63
	2. Net profit from discontinued operations		—
	(II) By attributable ownership		—
	1. Net profit attributable to the owners of the parent company	**(196,309,267.90)**	92,476,375.01
	2. Minority interests	**(28,598,569.66)**	9,930,091.62
VI.	**Other comprehensive income, net of tax**	**(292,277.16)**	(1,467,938.03)
	Other comprehensive income attributable to the owners of the parent company, net of tax	**(263,049.44)**	(1,389,262.88)
	(I) Other comprehensive income that may not be reclassified to profit or loss		—
	1. Changes on remeasurement of defined benefit plans		—
	2. Other comprehensive income that may not be transferred to profit or loss under equity accounting		—
	3. Fair value changes in investments in other equity instruments		—
	4. Fair value changes in credit risk of the Company		—
	5. Others		—
	(II) Other comprehensive income that will be reclassified to profit or loss	**(263,049.44)**	(1,389,262.88)
	1. Other comprehensive income that may be transferred to profit or loss under equity accounting		—
	2. Fair value changes in other debt investments		—
	3. Gains or losses on fair value changes in available-for-sale financial assets		—
	4. Reclassification of financial assets to other comprehensive income		—
	5. Gains or losses on reclassification of held-to-maturity investments to available-for-sale financial assets		—
	6. Provision for credit impairment on other debt investments		—
	7. Cash flow hedge reserve		—
	8. Exchange differences on translation of foreign financial statements	**(263,049.44)**	(1,389,262.88)
	9. Others		—
	Other comprehensive income attributable to minority shareholders, net of tax	**(29,227.72)**	(78,675.15)
VII.	**Total comprehensive income**	**(225,200,114.72)**	100,938,528.60
	Total comprehensive income attributable to owners of the parent company	**(196,572,317.34)**	91,087,112.13
	Total comprehensive income attributable to minority shareholders	**(28,627,797.38)**	9,851,416.47
VIII.	**Earnings per share:**		—
	(I) Basic earnings per share	**(0.246)**	0.1159
	(II) Diluted earnings per share	**(0.246)**	0.1159

Legal representative:	Accountant-in-charge:	Partner-in-charge:
Liu Yun Long	Liu Min	Ding Zhi Shui

Income Statement of the Parent Company

Unit: RMB

	Item	2019	2018
I.	**Operating revenue**	**3,660,946,787.68**	4,084,995,744.68
	Less: Operating costs	**3,256,862,423.86**	3,553,305,766.86
	Taxes and surcharges	**15,857,696.55**	25,384,758.52
	Selling expenses	**71,506,819.84**	96,990,930.88
	Administrative expenses	**51,787,498.24**	76,715,557.80
	Research and development expenses	**63,830,329.90**	71,979,056.24
	Finance expenses	**112,381,323.00**	140,497,268.66
	Including: Interest expenses	**125,378,366.81**	140,876,263.32
	Interest income	**6,878,736.53**	6,379,989.85
	Add: Other gains	**686,605.41**	622,983.37
	Investment income	**1,216,420.49**	—
	Including: Gains on investment in associates and joint ventures		—
	Gain on derecognition of financial assets measured at amortised cost		—
	Net gains on exposure hedges		—
	Gain on fair value changes		—
	Credit impairment losses	**(9,102,757.01)**	(36,590,741.02)
	Asset impairment losses	**(11,934,055.72)**	(6,074,363.45)
	Gain on disposal of assets	**6,875,505.09**	(175,829.57)
II.	**Operating profit**	**76,462,414.55**	77,904,455.05
	Add: Non-operating income	**2,705,423.97**	2,011,494.41
	Less: Non-operating expenses	**34,822,006.48**	13,973,771.57
III.	**Total profit**	**44,345,832.04**	65,942,177.89
	Less: Income tax expenses	**6,844,612.26**	(44,728,025.77)
IV.	**Net profit**	**37,501,219.78**	110,670,203.66
	(I) Net profit from continuing operations	**37,501,219.78**	110,670,203.66
	(II) Net profit from discontinued operations		—

Income Statement of the Parent Company

Unit: RMB

	I em	2019	2018
V.	**O he com, ehen i e income, ne of a**		
	(I) Other comprehensive income that may not be reclassi□ed to pro□t or loss		—
	1. Changes on remeasurement of de□ned bene□t plans		—
	2. Other comprehensive income that may not be transferred to pro□t or loss under equity accounting		—
	3. Fair value changes in investments in other equity instruments		—
	4. Fair value changes in credit risk of the Company		—
	5. Others		—
	(II) Other comprehensive income that will be reclassi□ed to pro□t or loss		—
	1. Other comprehensive income that may be transferred to pro□t or loss under equity accounting		—
	2. Fair value changes in other debt investments		—
	3. Gains or losses on fair value changes in available-for-sale □nancial assets		—
	4. Reclassi□cation of □nancial assets to other comprehensive income		—
	5. Gains or losses on reclassi□cation of held-to-maturity investments to available-for-sale □nancial assets		—
	6. Provision for credit impairment on other debt investments		—
	7. Cash□ow hedge reserve		—
	8. Exchange differences on translation of foreign □nancial statements		—
	9. Others		—
VI.	**To al com, ehen i e income**	**37,501,219.78**	110,670,203.66
VII.	**Ea ning , e ha e:**		—
	(I) Basic earnings per share		—
	(II) Diluted earnings per share		—

Consolidated Statement of Cash Flows

Unit: RMB

Item	2019	2018
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	**4,460,437,940.49**	4,069,356,982.68
Net increase in customer bank deposits and due to banks and other financial institutions		—
Net increase in borrowings from the central bank		—
Net increase in placements from other financial institutions		—
Cash received from receiving insurance premium of original insurance contract		—
Net cash received from reinsurance business		—
Net increase in deposits from policyholders		—
Cash received of interests, fees and commissions		70,000.00
Net increase in placements from banks and other financial institutions		—
Net increase in repurchase business capital		—
Net cash proceeds from securities brokerage		—
Receipts of tax refunds	**8,582,214.09**	4,270,845.64
Cash received relating to other operating activities	**326,650,980.55**	107,291,611.36
Sub-total of cash inflows from operating activities	**4,795,671,135.13**	4,180,989,439.68
Cash paid for purchasing goods and receiving services	**3,455,293,474.33**	3,257,967,239.06
Net increase in loans and advances to customers	**(12,374,045.25)**	(45,619,111.92)
Net increase in deposits with central bank and other financial institutions		—
Cash paid for compensation of original insurance contract		—
Net increase in lending funds		—
Cash paid for interests, fees and commissions		—
Cash paid for policy dividends		—
Cash paid to and on behalf of employees	**270,731,354.95**	247,832,855.17
Cash paid for taxes	**136,776,376.68**	105,416,454.31
Other cash paid relating to operating activities	**256,890,556.34**	245,802,406.74
Sub-total of cash outflows from operating activities	**4,107,317,717.05**	3,811,399,843.36
Net cash flows generated from operating activities	**688,353,418.08**	369,589,596.32

Unit: RMB

Item	2019	2018
II. Ca h o f om in e ing ac i i ie :		
Cash received from disposal of investments	**104,900,000.00**	7,488,422.15
Cash received from gains on investments	**3,490,824.04**	1,346,581.79
Net cash from disposal of □xed assets, intangible assets and other long-term assets	**9,974,199.66**	22,518,731.56
Net cash received from disposal of subsidiaries and other business units		—
Other cash received relating to investing activities		—
S b- o al of ca h in o f om in e ing ac i i ie	**118,365,023.70**	31,353,735.50
Cash paid for purchase and construction of □xed assets, intangible assets and other long-term assets	**77,287,258.35**	264,583,853.30
Cash paid for acquisition of investments		104,900,000.00
Net increase in pledged loans		—
Net cash paid for acquisition of subsidiaries and other business units		—
Other cash paid relating to investing activities		—
S b- o al of ca h o o f om in e ing ac i i ie	**77,287,258.35**	369,483,853.30
Ne ca h o gene a ed f om in e ing ac i i ie	**41,077,765.35**	(338,130,117.80)

Consolidated Statement of Cash Flows

Unit: RMB

	Item	2019	2018
III.	**Cash flows from financing activities:**		
	Cash received from capital contributions		—
	Including: Cash received from minority shareholder investment by subsidiary		—
	Borrowings received	**3,178,031,000.00**	4,659,333,700.00
	Other cash received relating to financing activities		—
	Sub-total of cash inflows from financing activities	**3,178,031,000.00**	4,659,333,700.00
	Cash repayments of amounts borrowed	**3,830,953,614.09**	4,417,027,032.25
	Cash paid for dividend and profit distribution or interest payment	**164,324,997.14**	195,419,766.43
	Including: Dividend and profit paid to minority shareholders by subsidiary		—
	Other cash paid relating to financing activities		160,000,000.00
	Sub-total of cash outflows from financing activities	**3,995,278,611.23**	4,772,446,798.68
	Net cash flows generated from financing activities	**(817,247,611.23)**	(113,113,098.68)
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	**5,148,781.78**	(818,000.81)
V.	**Net increase in cash and cash equivalents**	**(82,667,646.02)**	(82,471,620.97)
	Add: Balance of cash and cash equivalents at the beginning of the period	**578,924,482.20**	661,396,103.17
VI.	**Balance of cash and cash equivalents at the end of the period**	**496,256,836.18**	578,924,482.20

Statement of Cash Flows of the Parent Company

Unit: RMB

Item		2019	2018
I.	**Cash flows from operating activities:**		
	Cash received from sales of goods and rendering of services	**4,258,002,820.97**	3,460,156,929.50
	Refunds of taxes received	**4,762,757.02**	2,819,202.82
	Other cash received relating to operating activities	**333,011,999.31**	81,644,794.00
	Subtotal of cash inflows from operating activities	**4,595,777,577.30**	3,544,620,926.32
	Cash paid for purchasing goods and receiving services	**3,727,359,023.14**	3,329,209,248.86
	Cash paid to and on behalf of employees	**168,615,466.73**	152,421,242.68
	Cash paid for taxes	**58,046,650.83**	64,444,171.17
	Other cash paid relating to operating activities	**495,164,316.38**	189,543,146.90
	Subtotal of cash outflows from operating activities	**4,449,185,457.08**	3,735,617,809.61
	Net cash flows generated from operating activities	**146,592,120.22**	(190,996,883.29)
II.	**Cash flows from investing activities**		
	Cash received from disposal of investments	**50,000.00**	—
	Cash received from gains on investments	**1,216,420.49**	—
	Net cash from disposal of fixed assets, intangible assets and other long-term assets	**8,518,464.36**	574,682.85
	Net cash received from disposal of subsidiaries and other business units		—
	Other cash received relating to investing activities		—
	Subtotal of cash inflows from investing activities	**9,784,884.85**	574,682.85
	Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	**33,516,639.03**	57,896,288.73
	Cash paid for acquisition of investments		—
	Net cash paid for acquisition of subsidiaries and other business units		—
	Other cash paid relating to investing activities		—
	Subtotal of cash outflows from investing activities	**33,516,639.03**	57,896,288.73
	Net cash flows generated from investing activities	**(23,731,754.18)**	(57,321,605.88)

Statement of Cash Flows of the Parent Company

Unit: RMB

Item		2019	2018
III.	**Cash flows from financing activities:**		
	Cash received from capital contributions		—
	Borrowings received	**2,684,431,000.00**	3,726,233,700.00
	Other cash received relating to financing activities		—
	Sub-total of cash inflows from financing activities	**2,684,431,000.00**	3,726,233,700.00
	Cash repayments of amounts borrowed	**2,774,436,310.20**	3,176,385,032.25
	Cash paid for dividend and profit distribution or interest payment	**129,484,744.81**	133,193,341.10
	Other cash paid relating to financing activities		160,000,000.00
	Sub-total of cash outflows from financing activities	**2,903,921,055.01**	3,469,578,373.35
	Net cash flows generated from financing activities	**(219,490,055.01)**	256,655,326.65
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	**5,107,873.72**	(1,053,017.22)
V.	**Net increase in cash and cash equivalents**	**(91,521,815.25)**	7,283,820.26
	Add: Balance of cash and cash equivalents at the beginning of the period	**563,255,887.34**	555,972,067.08
VI.	**Balance of cash and cash equivalents at the end of the period**	**471,734,072.09**	563,255,887.34

Amounts for the current period

Unit: RMB

Item	2019													
	Equity attributable to owners of the parent company													
		Other equity instruments												
	Share capital	Preferred shares	Perpetual bonds	Other	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profit	Other	Sub-total	Minority interests	Total owners' equity
I. Balance at the end of the previous period	797,848,400.00				863,169,158.42		(2,792,011.13)		187,753,923.88	11,236.91	98,100,580.11		1,944,091,288.19	70,068,335.13	2,014,159,623.32
Add: Changes in accounting policies															
Correction of prior period errors															
Business combination under common control															
Others															
II. Balance at the beginning of the current period	797,848,400.00				863,169,158.42		(2,792,011.13)		187,753,923.88	11,236.91	98,100,580.11		1,944,091,288.19	70,068,335.13	2,014,159,623.32
III. Changes in the current period							(263,049.44)				(196,309,267.90)		(196,572,317.34)	(28,627,797.38)	(225,200,114.72)
(i) Total comprehensive income							(263,049.44)				(196,309,267.90)		(196,572,317.34)	(28,627,797.38)	(225,200,114.72)
(ii) Owners' capital contribution and reduction															
1. Ordinary shares contributed by owners															
2. Capital contributed by other equity instruments															
3. Amounts of share-based payments recognised in owners' equity															
4. Others															
(iii) Profit distribution															
1. Appropriations to surplus reserve															
2. Appropriations to general risk provision															
3. Distribution to the owners (or shareholders)															
4. Others															
(iv) Transfer of owners' equity															
1. Conversion of capital reserve into capital (or share capital)															
2. Conversion of surplus reserve into capital (or share capital)															
3. Surplus reserve making up of losses															
4. Changes in defined benefit plans carried forward to retained earnings															
5. Other comprehensive income carried forward to retained earnings															
6. Others															
(v) Special reserve															
1. Charge for the period								25,666,860.29					25,666,860.29		25,666,860.29
2. Utilised during the period								25,666,860.29					25,666,860.29		25,666,860.29
(vi) Others															
IV. Balance at the end of the current period	797,848,400.00				863,169,158.42		(3,055,060.57)		187,753,923.88	11,236.91	(98,208,687.79)		1,747,518,970.85	41,440,537.75	1,788,959,508.60

Amo n fo he ,io ,e iod

Unit: RMB

Item	2018														
	Equity attributable to owners of the parent company														
		Other equity instruments													
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed pro□ts	Others	Sub-total	Minority interests	Total owners' equity
I. Balance a he end of he ame ,e iod la ea	797,848,400.00	–	–	–	860,517,458.42	–	(1,402,748.25)	–	176,686,903.51	11,236.91	35,934,311.12	–	1,869,595,561.71	61,737,532.67	1,931,333,094.38
Add: Changes in accounting policies	–	–	–	–	–	–	–	–	–	–	(19,243,085.65)	–	(19,243,085.65)	(1,520,614.01)	(20,763,699.66)
Correction of prior period errors	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Business combination under common control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
II. Balance a he beginning of he c en ea	797,848,400.00	–	–	–	860,517,458.42	–	(1,402,748.25)	–	176,686,903.51	11,236.91	16,691,225.47	–	1,850,352,476.06	60,216,918.66	1,910,569,394.72
III. Change in he c en ,e iod	–	–	–	–	2,651,700.00	–	(1,389,262.88)	–	11,067,020.37	–	81,409,354.64	–	93,738,812.13	9,851,416.47	103,590,228.60
(i) Total comprehensive income	–	–	–	–		–	(1,389,262.88)	–	–	–	92,476,375.01	–	91,087,112.13	9,851,416.47	100,938,528.60
(ii) Owners' capital contribution and reduction	–	–	–	–	2,651,700.00	–	–	–	–	–	–	–	2,651,700.00	–	2,651,700.00
1. Ordinary shares contributed by owners	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Capital contributed by other equity instruments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Amounts of share-based payments recognised in owners' equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	2,651,700.00	–	–	–	–	–	–	–	2,651,700.00	–	2,651,700.00
(iii) Pro□t distribution	–	–	–	–	–	–	–	–	11,067,020.37	–	(11,067,020.37)	–	–	–	–
1. Appropriations to surplus reserve	–	–	–	–	–	–	–	–	11,067,020.37	–	(11,067,020.37)	–	–	–	–
2. Appropriations to general risk provision	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Distribution to the owners (or shareholders)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
(iv) Transfer of owners' equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1. Conversion of capital reserve into capital (or share capital)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Conversion of surplus reserve into capital (or share capital)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Surplus reserve making up of losses	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Changes in de□ned bene□t plans carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5. Other comprehensive income carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6. Others	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
(v) Special reserve	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
1. Charge for the period	–	–	–	–	–	–	–	20,348,646.62	–	–	–	–	20,348,646.62	–	20,348,646.62
2. Utilised during the period	–	–	–	–	–	–	–	20,348,646.62	–	–	–	–	20,348,646.62	–	20,348,646.62
(vi) Others	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
IV. Balance a he end of he c en ,e iod	797,848,400.00	–	–	–	863,169,158.42	–	(2,792,011.13)	–	187,753,923.88	11,236.91	98,100,580.11	–	1,944,091,288.19	70,068,335.13	2,014,159,623.32

Amo n fo he c en ,e iod

Unit: RMB

	2019											
		O he e i in men										
I em	Sha e ca,i al	P efe ed ha e	Pe ,e al bond	O he	Ca,i al e e e	Le : T ea ha e	O he com, ehen i e income	S,ecial e e e	S ,l e e e	Undi ib ed ,o	O he	To al o ne ' e i
I. Balance a he end of he ame ,e iod la ea	797,848,400.00				863,150,490.92				187,753,923.88	471,390,320.79		2,320,143,135.59
Add: Changes in accounting policies												
Correction of prior period errors												
Others												
II. Balance a he beginning of he c en ea	797,848,400.00				863,150,490.92				187,753,923.88	471,390,320.79		2,320,143,135.59
III. Change in he c en ,e iod										37,501,219.78		37,501,219.78
(i) Total comprehensive income										37,501,219.78		37,501,219.78
(ii) Owners' capital contribution and reduction												
1. Ordinary shares contributed by owners												
2. Capital contributed by other equity instrument holders												
3. Amounts of share-based payments recognised in owners' equity												
4. Others												
(iii) Pro□t distribution												
1. Appropriations to surplus reserve												
2. Distribution to the owners (or shareholders)												
3. Others												
(iv) Transfer of owners' equity												
1. Conversion of capital reserve into capital (or share capital)												
2. Conversion of surplus reserve into capital (or share capital)												
3. Surplus reserve making up of losses												
4. Changes in de□ned bene□t plans carried forward to retained earnings												
5. Other comprehensive income carried forward to retained earnings												
6. Others												
(v) Special r												

Amo n fo he ,r io ,r e iod

Unit: RMB

		2018											
			Other equity instruments										
Item		Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed pro□ts	Others	Total owners' equity
I.	**Balance a he end of he ame ,r e iod la ea**	797,848,400.00	–	–	–	860,498,790.92	–	–	–	176,686,903.51	388,366,128.99	–	2,223,400,223.42
	Add: Changes in accounting policies	–	–	–	–	–	–	–	–	–	(16,578,991.49)	–	(16,578,991.49)
	Correction of prior period errors	–	–	–	–	–	–	–	–	–	–	–	–
	Others	–	–	–	–	–	–	–	–	–	–	–	–
II.	**Balance a he beginning of he c en ea**	797,848,400.00	–	–	–	860,498,790.92	–	–	–	176,686,903.51	371,787,137.50	–	2,206,821,231.93
III.	**Change in he c en ,r e iod**	–	–	–	–	2,651,700.00	–	–	–	11,067,020.37	99,603,183.29	–	113,321,903.66
	(i) Total comprehensive income	–	–	–	–	–	–	–	–	–	110,670,203.66	–	110,670,203.66
	(ii) Owners' capital contribution and reduction	–	–	–	–	2,651,700.00	–	–	–	–	–	–	2,651,700.00
	1. Ordinary shares contributed by owners	–	–	–	–	–	–	–	–	–	–	–	–
	2. Capital contributed by other equity instrument holders	–	–	–	–	–	–	–	–	–	–	–	–
	3. Amounts of share-based payments recognised in owners' equity	–	–	–	–	–	–	–	–	–	–	–	–
	4. Others	–	–	–	–	2,651,700.00	–	–	–	–	–	–	2,651,700.00
	(iii) Pro□t distribution	–	–	–	–	–	–	–	–	11,067,020.37	(11,067,020.37)	–	–
	1. Appropriations to surplus reserve	–	–	–	–	–	–	–	–	11,067,020.37	(11,067,020.37)	–	–
	2. Distribution to the owners (or shareholders)	–	–	–	–	–	–	–	–	–	–	–	–
	3. Others	–	–	–	–	–	–	–	–	–	–	–	–
	(iv) Transfer of owners' equity	–	–	–	–	–	–	–	–	–	–	–	–
	1. Conversion of capital reserve into capital (or share capital)	–	–	–	–	–	–	–	–	–	–	–	–
	2. Conversion of surplus reserve into capital (or share capital)	–	–	–	–	–	–	–	–	–	–	–	–
	3. Surplus reserve making up of losses	–	–	–	–	–	–	–	–	–	–	–	–
	4. Changes in de□ned bene□t plans carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–	–
	5. Other comprehensive income carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–	–
	6. Others	–	–	–	–	–	–	–	–	–	–	–	–
	(v) Special reserve	–	–	–	–	–	–	–	–	–	–	–	–
	1. Charge for the period	–	–	–	–	–	–	–	4,655,376.17	–	–	–	4,655,376.17
	2. Utilised during the period	–	–	–	–	–	–	–	4,655,376.17	–	–	–	4,655,376.17
	(vi) Others	–	–	–	–	–	–	–	–	–	–	–	–
IV.	**Balance a he end of he c en ,r e iod**	797,848,400.00	–	–	–	863,150,490.92	–	–	–	187,753,923.88	471,390,320.79	–	2,320,143,135.59

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I. General Information of the Company

Shandong Molong Petroleum Machinery Company Limited (hereunder the "Company", together with its subsidiaries, the "Group") is a joint stock limited company registered in the People's Republic of China, the predecessor company is Shandong Molong Holdings Company, which was established jointly by Zhang En Rong, Lin Fu Long, Zhang Yun San, Xie Xin Cang, Liu Yun Long, Cui Huan You, Liang Yong Qiang, Shengli Oil Field Kaiyuan Oil Exploitation Company Limited (勝利油田凱源石油開發有限責任公司) and Gansu Industrial University Alloy Materials Factory (甘肅工業大學合金材料總廠) on 27 December 2001 with the approval from Of□ce for Restructuring the Economic System of Shandong Province (山東省經濟體制改革辦公室) with the letter Lu Ti Gai Han Zi [2001] No. 53 (魯體改函字[2001]53號文).

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2003] No. 50 (證監國合字[2003]50號文), on 15 April 2004, the Company issued 134,998,000 additional overseas listed foreign shares (H Shares) at the issuing price of HKD0.70 per share with a nominal value of RMB0.10 each, which were listed in the Growth Enterprise Market of the Stock Exchange of Hong Kong.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2005] No. 13 (證監國合字[2005]13號文), on 12 May 2005, the Company issued 108,000,000 additional overseas listed foreign shares (H Shares) at the issuing price of HKD0.92 per share with a nominal value of RMB0.10 each.

Upon the approval by Zheng Jian Guo He Zi [2007] No. 2 (證監國合字[2007]2號文) issued and signed by China Securities Regulatory Commission on 26 January 2007 and the approval issued by the Stock Exchange of Hong Kong on 6 February 2007, the listing status of the Company's overseas listed foreign shares (H Shares) in the Growth Enterprise Market of the Stock Exchange of Hong Kong has been cancelled on 7 February 2007, and changed to list on the Main Board of the Stock Exchange of Hong Kong.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2010] No. 1285 (證監許可[2010]1285號文), on 11 October 2010, the Company offered 70,000,000 Renminbi ordinary shares (A Shares) with nominal value of RMB1 each at an offering price of RMB18 per share, and listed for trading on the Shenzhen Stock Exchange since 21 October 2010. The Company's registered capital has changed to RMB398,924,200.00, and the total number of shares has changed to 398,924,200 shares.

Pursuant to the resolutions of 2011 Annual General Meeting convened on 25 May 2012, on the basis of a total of 398,924,200 shares as at 31 December 2011, the Company enlarged its share capital through conversion from capital reserve in the proportion of 1 shares for each existing share, converting 398,924,200 shares in aggregate, and the conversion date was 19 July 2012. Upon the conversion, the Company's registered capital has changed to RMB797,848,400.00, and the total number of shares has changed to 797,848,400 shares.

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I. General Information of the Company *(c ed)*

The Company and its subsidiaries (hereunder referred as to the "Group") belong to the machinery manufacturing industry and are mainly engaged in the manufacture of special equipment for petroleum machinery. The scope of business is mainly included the production and sales of oil pump, sucker rod, pumping unit, pumping tubing, petroleum machinery and textile machinery; development of petroleum machinery and related products; commodity information services (excluding intermediaries) (The project approved by law can only be carried out with the approval of the relevant department, and the effective period of the license shall prevail).

The controlling shareholder and ultimate controller of the Company is Zhang En Rong, who is a natural person.

The Group's consolidated financial statements comprised nine companies including 壽光寶隆石油器材有限公司 (Shouguang Baolong Petroleum Equipment Co., Ltd.), 壽光懋隆新材料技術開發有限公司 (Shougang Maolong New Materials Technology Development Co., Ltd.) and 威海市寶隆石油專材有限公司 (Weihai Baolong Special Petroleum Material Co., Ltd.). Compared with last year, there were 2 less companies, namely 文登市寶隆再生資源有限公司 (Wendeng Baolong Recyclable Resource Co., Ltd.) and 壽光市懋隆廢舊金屬回收有限公司 (Shouguang Maolong Old Metals Recycle Co., Ltd.), due to deregistration during the year, and there was one more company, namely 山東墨龍能源科技有限公司(Shandong Molong Energy Technology Co., Ltd.), due to new incorporation during this year.

For details of the Group's subsidiaries, please refer to "VIII. Changes in the consolidation" on consolidation of this note and "IX. Interests in other entities" of this note.

II. Basis of Preparation of the Financial Statements

1. Ba i of e a a ion

The nancial statements of the Group have been prepared on a going concern basis, according to the actual occurrence of the transactions and events and in accordance with the Accounting Standards for Business Enterprises and related regulations (hereinafter collectively referred to as the "ASBEs") promulgated by the Ministry of Finance of the People's Republic of China, and disclosure requirements on Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Provisions on Financial Reporting (amended in 2014) issued by the China Securities Regulatory Commission, Hong Kong Companies Ordinance, and the disclosure requirements under the Listing Rules of the Hong Kong Stock Exchange, and based on the accounting policies and accounting estimates set out in "IV. Signi cant Accounting Policies and Accounting Estimates" of this note.

2. Going conce n

As at 31 December 2019, the Group's current liabilities in the consolidated financial statements exceeded its current assets by RMB141,094.59 ten thousand. Currently, the Group is in smooth partnership with the associated financial institutions, with some financing channels developed and some facility lines increased. The non-cancellable supportive nancial commitment entered into by Mr. Zhong En Rong, the controlling shareholder, in 2017 remained valid.

As at the disclosure date of the nancial report, the Group had a total of additional unutilised credit line from nancial institutions of RMB620 million. The Group had adequate orders on hand and sustained stable cash ows from operating activities. The products newly developed by the Company had a relatively positive market prospect. In addition, the Group did not have any signi cant investment plan in 2020.

II. Basis of Preparation of the Financial Statements *(c ed)*

2. Going conce n *(c ed)*

Combined the above factors, the management of the Company considers that the Company is able to meet its debts as and when they become due, and can able to operate as a going concern. Therefore, the financial statements of the Group have been prepared under the going concern assumption.

III. Significant Accounting Policies and Accounting Estimates

Speci□c accounting policies and accounting estimates:

The Group has adopted the accounting policies and accounting estimates speci□c to the characteristics of its actual production and operation, including the business cycle, recognition and measurement of □nancial assets, measurement of inventory dispatched, classification and depreciation of fixed assets, amortisation of intangible assets, criteria for capitalisation of research and development expenditures, recognition and measurement of revenue and others.

1. S a emen of com liance i h he ASBE

The Company have prepared the □nancial statements in accordance with the Accounting Standards for Business Enterprises (the "ASBEs"), which gives a true and complete view of the □nancial position, trading results, cash□ows and other information of the Company and of the Group.

2. Acco n ing e iod

The accounting period of the Group is from 1 January to 31 December of each calendar year.

3. B ine c cle

The Group's business cycle is 12 months. The period from 1 January to 31 December every year is regarded as a business cycle, which is used for determining the classi□cation of the liquidity of assets and liabilities.

4. Re o ing c enc

The reporting currency of the Group is Renminbi ("RMB").

5. Acco n ing fo b ine combina ion nde common and ncommon con ol

The assets and liabilities that the Group acquires as the combining party in a business combination under common control shall be measured at their book value of the combined party on the combining date in the consolidated statements of the ultimate controlling party. The balance between the book value of the net assets acquired and that of the consideration paid shall be used to adjust capital reserves. If capital reserves are insufficient for offsetting, retained earnings will be adjusted.

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III. Significant Accounting Policies and Accounting Estimates *(c ed)*

5. Acco n ing fo b ine combina ion nde common and ncommon con ol *(c ed)*

The identi□able assets, liabilities and contingent liabilities acquired from the acquiree in a business combination not under common control shall be measured at fair value on the acquisition date. The combination costs shall be the aggregate of the fair value of cash or non-cash assets paid by the Group on the acquisition date to obtain control over the acquiree, the debts issued or undertaken by the Group and the equity securities issued as well as all relevant direct costs for the business combination (for a business combination realized by two or more transactions, the combination costs shall be the aggregate of the costs of all separate transactions). The amount of the combination costs in excess of the fair value of the identi□able net assets of the acquiree shall be recognized as goodwill. If the combination costs are less than the fair value of the identi□able net assets of the acquiree, the fair value of the identi□able assets, liabilities and contingent liabilities acquired from the combination as well as the fair value of the non-cash assets or the equity securities issued for paying the consideration will be reviewed. If the combination costs are still less than the fair value of the identi□able net assets after review, the balance shall be accounted for as non-operating income for the current period.

6. P e a a ion of con olida ed nancial a emen

The Group takes all subsidiaries and Structured subject owning the actual controlling power into the scope of the consolidated □nancial statements.

When the Group prepares the consolidated financial statements, necessary adjustments will be made to that subsidiary's □nancial statements in preparing the consolidated □nancial statements to ensure conformity with the Group's accounting policies if there is inconsistency on the accounting policies and accounting period between the Company and its subsidiaries.

Signi□cant intra-group transactions, current balance and unrealized pro□ts within the scope of combination shall be offset in preparing the consolidated financial statements. The shares of owners' equity in subsidiaries not attributable to the parent company and the net loss or pro□t for the current period, other comprehensive income and total comprehensive income attributable to minority interests shall be presented in the consolidated □nancial statements as "minority interests, pro□t or loss attributable to minority interests, other comprehensive income attributable to minority interests and total comprehensive income attributable to minority interests", respectively.

The operating results and cash □ows of a subsidiary acquired from business combination under common control shall be included in the consolidated financial statements from the beginning of the current period of the combination. When preparing the comparative consolidated □nancial statements, relevant items in the □nancial statements of the previous year will be adjusted as if the reporting entity formed after the combination had been in existence since the ultimate controlling party gains control.

III. Significant Accounting Policies and Accounting Estimates *(c ed)*

6. P e a a ion of con olida ed nancial a emen *(c ed)*

In preparing consolidated nancial statements, equity interests acquired by two or more transactions, which nally achieves the business combination, shall be adjusted as if they had been in existence in the current state since the ultimate controlling party gains control. When preparing the comparative statements, to the extent that the Group and the combined party are both under the control of the ultimate controlling party, the relative assets and liabilities of the combined party shall be included in the comparative statements of the Group's consolidated nancial statements, and the increase in net assets arising from the combination will be adjusted against the related items under owners' equities in the comparative statements. To avoid double counting the value of the net assets of the combined party, long-term equity investments before the combination, as well as the relevant recognized pro t or loss, other comprehensive income and other changes in net assets from the day of acquiring the original equity interest or the day when the Group and the combined party are under the same ultimate control, whichever is later, to the combination date shall be offset against the retained earnings at the beginning of the period and the pro t or loss for the current period in the comparative statements, respectively.

The operating results and cash ows of a subsidiary acquired from a business combination not under common control unit shall be included in the consolidated financial statements since the Group gains control. When preparing the consolidated nancial statements, the nancial statements of the subsidiary shall be adjusted based on the fair value of the identi able assets, liabilities and contingent liabilities determined on the acquisition date.

For equity interests in an investee not under common control acquired by two or more transactions, which nally achieves the business combination, when the Group prepares the consolidated statements, equity interests in the investee before the acquisition date shall be re-measured at fair value on the acquisition date and the balance between the fair value and the book value shall be included in the investment gains for the current period. Except for other comprehensive income arising from changes as a result of re-measurement of net liabilities or net assets of the de ned bene t plan of the investee, other comprehensive income under the equity method involving the equity interests in the investee held before the acquisition date and other changes in equity except net pro t or loss, other comprehensive income and pro t distribution shall be converted into investment gains or loss in the period in which the acquisition date falls.

The difference between disposal consideration of long-term equity investment in subsidiaries partially disposed by the Group without losing controls and the share of net assets calculated from the date of acquisition or combination date shall be adjusted to capital premium or share premium in the consolidated nancial statements. Adjustments shall be made to retained earnings in the event that capital reserves are not suf cient.

When the Group loses the controls over the investee due to partially disposal of equity investment and other reasons, the remaining equity shall be re-measured in accordance with the fair value on the date of losing control upon preparation of the consolidated nancial statements. The amount of the sum of the consideration obtained from equity disposal and the fair value of remaining equity deducting the difference between shared net asset of original subsidiaries that were started to be calculated on the acquisition date or merging date, shall be recorded as investment gain or loss in the period of losing control, and a written down to goodwill shall be made at the same time. Other comprehensive income related to former equity investment in subsidiaries shall be recognised as current investment income upon losing of controls.

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III. Significant Accounting Policies and Accounting Estimates *(c ed)*

6. P e a a ion of con olida ed nancial a emen *(c ed)*

For the Group's disposal on the subsidiaries' equity investment by steps until the loses of controls, if transactions in disposal of subsidiaries' equity investment until losing control are in a package deal, each transaction shall be treated as one transaction of disposal on subsidiaries and loses of control; but the difference between considerations from each disposal of investment and shared net asset of the subsidiary before losing controls shall be recognized as other comprehensive income in the consolidated financial statements, and transferred to investment income for the period of losing controls.

7. Cla ifica ion of join a angemen and acco n ing ea men of common coo e a ion

The joint arrangement of the Group includes common operations and joint ventures. For common operation projects, as a joint operation party the Group recognises assets and liabilities solely held by the Group and assets and liabilities held on proportion. Revenue and expenses solely or proportionally recognised in accordance with relevant agreements. Transactions on asset purchase or sales with joint ventures, that do not form normal business activity shall only recognise parts of pro□ts and losses generated in above transactions belonging to other joint operation parties.

8. C i e ia fo de e mina ion of ca h and ca h e i alen

Cash in cash □ow statement of the Group shall be cash on hand and deposits available for payment at any time. Cash equivalents in cash flow shall be investments which shall be short-term (normally become due within 3 months after purchasing date), highly liquid, readily convertible to known amounts of cash, and subject to an insigni□cant risk of changes in value.

9. Fo eign c enc o e a ion and an la ion of fo eign c enc a emen

(1) Fo eign c enc an ac ion

For foreign currency transactions, the Group translate the foreign currency amounts into RMB amounts at the spot rates of exchanges on a trade-date basis. On balance sheet date, foreign currency monetary items are translated into RMB at the prevailing exchange rate of that date. Exchange differences arising thereon are directly expensed in the pro□t and loss for the current period unless they arise from foreign currency borrowings for the purchase or construction of qualifying assets which are eligible for capitalisation.

(2) T an la ion of fo eign c enc nancial a emen

Assets and liabilities in foreign currency balance sheet are translated at the spot rate prevailing at the balance sheet date. Except for "undistributed pro□ts", items under the owners' equity are translated at the spot exchange rate when they occur. Income and expenses in income statement are translated at the spot exchange rate on a trade-date basis. The resulting differences are presented under other comprehensive income. Cash □ow dominated in foreign currency are translated at the spot rate when occurs. Effects on cash arising from the change of exchange rate are presented as separate item in the cash □ow statement.

Notes to the Financial Statements

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III. Significant Accounting Policies and Accounting Estimates *(c ed)*

10. Financial in men *(c ed)*

(1) Financial a e *(c ed)*

1) Ca ca , ec g a d ea e e f a ca a e (c ed)

The Group designates non-trading equity instrument investments as nancial assets measured at fair value through other comprehensive income. Once the designation is made, it cannot be revoked. The non-trading equity instrument investment designated by the Group at fair value through other comprehensive income is recognized initially at fair value, and related transaction expense is included in the initially recognised amount. Except for dividends (excluding any portion as return of investment cost) received and recorded in the current pro t and loss, other related gains and losses (including exchange gains and losses) are included in other comprehensive income and subsequently may not be transferred to the current pro ts and losses. When it is derecognised, the accumulated gain or loss previously included in other comprehensive income is transferred from other comprehensive income and is included in retained earnings.

Except those classi ed as nancial assets at amortized cost and nancial assets at fair value through other comprehensive income, the Group classi es the remaining nancial assets as nancial assets at fair value through pro t or loss. Financial assets of this kind are initially measured at fair value and relevant transaction costs are included directly in the initially recognized amount. The pro t or loss on nancial assets of this kind is included in the pro t or loss of the current period.

When the Group changes the business model for managing nancial assets, all nancial assets being affected are reclassi ed. There were no such circumstance in the year.

2) Ba f ec g a d e d f ea e e f a fe f a ca a e

A nancial asset is derecognised if any one of the following conditions is satis ed: ① the contractual rights to receive cash flows from the financial asset have ceased; ② the financial asset has been transferred and the Group has transferred substantially all the risks and rewards incidental to the ownership of the nancial asset; ③ the nancial asset has been transferred and the Group has neither transferred nor retained substantially all the risks and rewards incidental to the ownership of the nancial asset, and has not retained its control over the nancial asset.

Where the transfer of a nancial asset in whole satis es the criteria of derecognition, the difference between the carrying amount of the nancial asset transferred and the sum of consideration received for the transfer and any cumulative gain or loss of fair value that has been recognized directly in other comprehensive income for the part derecognized (the contractual terms of the transferred nancial assets give rise on speci ed dates to cash ows that are solely payments of principal and interest on the principal amount outstanding) is included in pro t or loss for the current period.

Where the transfer of nancial asset in part satis es the criteria of derecognition, the carrying amount of the entire nancial asset transferred is allocated between the part to be derecognized and the part not to be derecognised in proportion to their respective relative fair values, and the difference between the sum of the consideration received for the transfer and any cumulative gain or loss of fair value for the part derecognized that has been recognized directly in other comprehensive income for the part derecognized (the contractual terms of the transferred nancial assets give rise on speci ed dates to cash ows that are solely payments of principal and interest on the principal amount outstanding) and the carrying amount of the entire nancial asset abovementioned for allocation is included in pro t or loss for the current period.

III. Significant Accounting Policies and Accounting Estimates *(c ed)*

10. Financial in men *(c ed)*

(2) Financial liabili ie

1) Ca ca , ec g a d ea e e f a ca ab e

At initial recognition, nancial liabilities are classi ed either as nancial liabilities at fair value through pro t or loss and other nancial liabilities.

Financial liabilities at fair value through pro t or loss include trading nancial liabilities and nancial liabilities held-for-trading and those designated as fair value through profit or loss on initial recognition. These nancial liabilities are subsequently measured at fair value. The net gain or loss arising from changes in fair value; dividends and Interest expenditure related to such nancial liabilities are recorded in pro t or loss for the period in which they are incurred.

Other nancial liabilities are subsequently measured at amortised cost, using the effective interest method. Except for the following, the Group classifies financial liabilities as financial liabilities at amortized cost: ① Financial liabilities at fair value through pro t or loss, including held-for-trading nancial liabilities (including derivatives that are nancial liabilities) and nancial liabilities designated as at fair value through pro t or loss. ② Financial liabilities that arise when a transfer of a nancial asset does not qualify for derecognition or when the continuing involvement approach applies. ③ Financial guarantee contracts that do not fall into ① or ② above, and commitments to provide a loan at a below-market interest rate that do not fall into ① above.

For nancial liabilities arising from contingent consideration recognised by the Group as an acquirer in a business combination not under the common control, they shall be measured at fair value with changes recognised in pro t or loss for the current period.

2) C e a f de ec g f a ca ab e

When the present obligations of nancial liabilities are released in whole or in part, such nancial liabilities are derecognized to the extent of the obligations released. Where the Group enters into an agreement with its creditor to replace existing nancial liabilities by assuming new nancial liabilities with contractual terms substantively differ from those of the existing nancial liabilities, the existing nancial liabilities are derecognized while the new nancial liabilities are recognized. Where the Group substantively revises, in whole or in part, the contractual terms of existing nancial liabilities, such existing nancial liabilities are derecognized in whole or in part, while those nancial liabilities with their terms revised are recognized as new nancial liabilities. The difference between the carrying amount of the derecognised part and the consideration paid is included in the pro t or loss for the current period.

(3) Me hod fo de e mina ion of fai al e of nancial a e and nancial liabili ie

Fair values of nancial assets and nancial liabilities of the Group are measured at the prices in principal market. In case there is no principal market, fair values of financial assets and financial liabilities are calculated using the price which is the most bene cial to the market, and using valuation technology which is the most appropriate at that time and with suf cient available data and other information. The inputs which are used to measure the fair value have been divided into 3 levels by the Group: Level 1-inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities. Level 2-inputs are quoted prices for the asset or liability (other than those included in Level 1) that are either directly or indirectly observable. Level 3-inputs are unobservable inputs to the related assets or liabilities. The Level 1 inputs are the rst priority to use by the Group, and level 3 inputs will be the last one to use. The level of fair value measurement is determined by the lowest level of inputs which are signi cant to the measurement of fair value as a whole.

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10. Financial in men *(c ed)*

(3) Me hod fo de e mina ion of fai al e of nancial a e and nancial liabili ie *(c ed)*

The Group measures investments in equity instruments at fair value. However, in limited circumstances, if recent information on determining fair value is insuf□cient, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range, the cost may be an appropriate estimate of fair value with that range.

(4) Off e ing of nancial a e and nancial liabili ie

Financial assets and □nancial liabilities of the Group shall be presented separately in the balance sheet and shall not be offset. However, when all of the following conditions are met, a □nancial asset and a □nancial liability shall be offset and the net amount is presented in the balance sheet: (1) the Group has a legal right that is currently enforceable to set off the recognized amount, and (2) the Group intends either to settle on a net basis, or to realise the □nancial asset and settle the □nancial liability simultaneously.

(5) Cla ica ion and ea men of nancial liabili ie and e i in men

The Group classi□es □nancial liabilities and equity instruments on the following principles: (1) Where the Group is unable to unconditionally avoid delivering cash or another □nancial asset to ful□l a contractual obligation, the contractual obligation meets the de□nition of a □nancial liability. Although some □nancial instruments do not explicitly include the terms and conditions imposing the contractual obligation to deliver cash or another □nancial asset, they may indirectly give rise to the contractual obligation through other terms and conditions. (2) Where a □nancial instrument will or may be settled in the Group's own equity instrument, consideration shall be given to whether the Group's own equity instrument as used to settle the instrument is a substitute of cash or another □nancial asset or the residual interest in the assets of an entity after deducting all of its liabilities. In the former case, the instrument shall be the issuer's □nancial liability; in the latter case, the instrument shall be the equity instrument of the issuer. Under certain circumstances whereby a □nancial instrument contract stipulates that the Group will or may use its own equity instrument to settle the □nancial instrument, and the amount of the contractual right or obligation equal to the number of its own equity instruments to be received or delivered multiplied by their fair value at the time of settlement, the contract shall be classi□ed as a □nancial liability, regardless of whether the amount of the contractual right or obligation is □xed, or □uctuates in full or in partly in response to changes in a variable other than the market price of the Group's own equity instruments (for example an interest rate, a commodity price or a □nancial instrument price).

When classifying a □nancial instrument (or a component thereof) in consolidated □nancial statements, the Group shall consider all terms and conditions agreed between members of the Group and the holders of the □nancial instrument. If the Group as a whole has an obligation in respect of the instrument to settle it by delivering cash or another financial asset or in such a way that it would be a financial liability, such instrument shall be classi□ed as a □nancial liability.

If the □nancial instrument or its component is attributable to the □nancial liability, the relevant interests, dividends, gains or losses, and gains or losses arising from redemption or re□nancing, shall be recorded in the pro□t or loss of the current period.

If the □nancial instrument or its component is attributable to equity instrument, the Group shall treat it as change in equity when it is issued (including refinanced), repurchased, sold or cancelled, and shall not recognize changes in fair value of equity instrument.

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11. Bill ecei able

The business model of the Group's bills receivable is trade acceptance bills that collect contractual cash ows. Impairment provision of bills receivable as at the end of the year shall be made on the basis of expected credit loss of accounts receivable.

12. Acco n ecei able

For bills receivable and accounts receivable arising from transactions regulated by the "Accounting Standards for Business Enterprises No. 14 — Revenue" and including no signi cant nancing components, the Group always measures its loss allowance at

Judgment of whether credit risk has increased significantly since initial recognition. By comparing the defau probability of the nancial instrument within the estimated duration determined at initial recognition against th default probability of such instrument within the estimated duration determined on the balance sheet date, th Group determines whether the credit risk of nancial instrument has increased signi cantly. However, if the Grou determines that a nancial instrument has only a low credit risk on the balance sheet date, it can be assumed tha the credit risk of the financial instrument has not increased significantly since initial recognition. In norm circumstance, if the nancial instrument is more than 30 days past due, it indicates that the credit risk of nanci instrument has increased significantly; unless the Group can obtain reasonable and supportable informatio without undue cost or effort, which demonstrates that even if it is more than 30 days past due, the credit risk ha not increased signi cantly since the initial con rmation. When determining whether the credit risk has increase signi cantly since the initial con rmation, the Group shall consider the reasonable and supportable informatio including forward-looking information, that is available without undue cost or effort.

Information considered by the Group includes:

— the issuer or debtor has signi cant nancial dif culty;

— the debtor has a breach of the contract, such as default or delay in payment of interest or principal;

— elevant economic or contractual conditions based on the debtor's nancial dif culty, the creditor gran

— the debtor will pr

the issuer's or debtor's nancial dif culty conduces to the disappearance of the active market of the nancial asset;

— a nancial asset is purchased or originated at a large discount and the discount re ects the occurrence of credit loss.

For bills receivable and accounts receivable, the Group adopts expected credit loss approach to provide for allowances for expected credit loss is determined on an individual basis. Apart from determining expected credit loss on accounts receivable and bills receivable on an individual basis, the Group also determines the expected credit losses on a collective basis based on the age distribution and whether it is the common risk characteristics of related party amounts within the scope of consolidation. For the combination of expected credit losses based on aging characteristics and the combination of expected credit loss of related parties within the scope of consolidation, the Group calculates the expected credit loss on accounts receivable and bills receivable using the exposure to default risk and expected credit loss rate of on accounts receivable and bills receivable, and determine the expected credit loss rate based on default probability and default loss rate.

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12. Acco n ecei able *(c ed)*

The Group measures the expected credit loss on bills receivable and accounts receivable as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for the bills receivable and accounts receivable at that time, the Group recognizes the difference as loss allowance for the bills receivable and accounts receivable which shall be charged to "credit impairment loss" or credited to "provision for bad debts". In the case contrary to the aforesaid, the Group recognizes the difference as impairment gain and makes the account contrarily.

When any credit loss of the Group is actually incurred and it is certain that relevant notes receivable and accounts receivable cannot be recovered, after an approval for write-off is obtained, the approved amount of write-off shall be charged to "provision for bad debts" and credited to "notes receivable" or "accounts receivable". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

Based on the actual credit loss in previous years and taking into account of forward-looking information of the year, the Group's accounting estimation policies for measuring expected credit losses by age group, are as follows:

I em	Wi hin 1 ea	1 2 ea	2 3 ea	3 5 ea	O e 5 ea
Default loss rate	1.00%	50.00%	75.00%	85.00%	100.00%

13. Financing ecei able

For those bills receivable and accounts receivable which the contractual cash ow characteristics are consistent with the basic lending arrangements and the Company's business model for managing such nancial assets is to collect the contractual cash ows and for sale, the Company classi es such bills receivable and accounts receivable as financing receivables and measures them at fair value through other comprehensive income. At initial recognition, the fair value is always the transaction price and any change in fair value is accounted through other comprehensive income. Upon derecognition, the cumulative gain or loss previously included in other

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14. O he ecei able *(c ed)*

Recogni ion and acco n ing me hod fo e ec ed c edi lo on o he ecei able *(c ed)*

Assessment made on a combined basis: For other receivables, the Group is unable to obtain suf□cient evidence for any signi□cant increase in credit risk at reasonable cost for one instrument, but □nds it feasible to assess whether there is any significant increase in credit risk on a combined basis, therefore, by taking the type of financial instruments, credit risk rating, collateral type, date of initial recognition, remaining periods of time to maturity under remaining contracts, industry the borrower operates in and loan pledge rate as the common characteristics of risk, the Group categorizes other receivables into different groups and considers and assesses whether there is any signi□cant increase in credit risk on a combined basis. The Group categorises other receivables into groups by nature and assesses whether there is any signi□cant increase in credit risk.

The Group measures the expected credit loss on other receivables as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for other receivables at that time, the Group recognizes the difference as loss allowance for other receivables which shall be charged to "credit impairment loss" or credited to "provision for bad debts". In the case contrary to the aforesaid, the Group recognizes the difference as impairment gain and makes the account contrarily.

When any credit loss of the Group is actually incurred and it is certain that relevant other receivables cannot be recovered, after an approval for write-off is obtained, the approved amount of write-off shall be charged to "provision for bad debts" and credited to "other receivables". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

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16. Con ac a e *(c ed)*

(2) Recogni ion and acco n ing ea men fo e ec ed c edi lo e on con ac a e

For the recognition and accounting treatment for expected credit losses on contract assets, please refer to the recognition and accounting treatment as set out in "12. Bills and accounts receivable" above.

The Group measures the expected credit loss on contract assets as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for the contract assets at that time, the Group recognizes the difference as impairment loss which shall be charged to "credit impairment loss" or credited to "impairment allowance for contract assets". In the case contrary to the aforesaid, the Group recognizes the difference as impairment gain and makes the account contrarily.

When any credit loss of the Group is actually incurred and it is certain that relevant contract assets cannot be recovered, after an approval for write-off is obtained, the approved amount of write-off shall be charged to "impairment allowance for contract assets" and credited to "contract assets". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

17. Con ac co

(1) Me hod fo de e mining he amo n of a e ela ed o con ac co

The Group's assets relating to contract costs include costs to fulfil a contract and costs of obtaining a contact.

Contract performance costs represent the costs incurred by the Group in performing its contract. When the costs are not within the scope of other accounting standards for business enterprises, the Group recognises those costs as an asset if they meet all of the following criteria: the costs relate directly to a contract or to an anticipated contract that the entity can speci□cally identify, including direct labor cost, directly material cost, manufacturing overheads, costs that are explicitly chargeable to the customer under the contract and other costs that are incurred only because the Group has entered into the contract; the costs generate or enhance

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17. Con ac co *(c ed)*

(3) Im ai men of a e ela ed o con ac co

When determining the impairment loss of an asset related to the contract cost, the Group rst determines the impairment loss for other assets related to the contract, which is determined in accordance with other relevant accounting standards for business enterprises; then, the Group provides for impairment allowance and recognizes as an impairment loss of asset to the extent that the carrying amount of such asset exceeds the difference between the following: the remaining amount of consideration that the Group expects to receive for the transfer of goods to which the asset relates; and the costs that are estimated to be incurred for the transfer of the relevant goods.

The Group shall recognise in pro t or loss a reversal of an impairment loss previously recognized when the impairment conditions change and the aforesaid difference is higher than the carrying amount of the asset. The increased carrying amount of the asset shall not exceed the amount that would have been determined if no impairment loss had been recognised previously.

18. A e held fo ale

(1) The Group classi es non-current assets or disposal group that meet the following criteria as held for sale: 1) can immediately be disposed of under the current conditions based on cases of disposals of such assets or disposal groups in similar transactions; 2) the disposal is highly probable that a decision has been made on a plan for the disposal and an undertaking to purchase has been obtained, and the disposal is expected to be completed within a year. Relevant approval is required for disposals requiring approval from the relevant authorities or regulators as required by the relevant regulations. Before the Group first classifies a non-current asset or disposal group as held for sale, the book value of the non-current asset or each asset and liability in the disposal group is measured according to the requirements of the relevant accounting standards. On initial measurement or remeasurement on the balance sheet date of a non-current asset or a disposal group held for sale, where the book value is higher than the fair value less cost of disposal, the book value is written down to the fair value less disposal. The amount of write-down is recognised as an impairment loss of the asset and charged to pro t and loss of the period. At the same time, provision is made for impairment of assets held for sale.

(2) Non-current assets or disposal groups which the Group acquired speci cally for disposal, satisfy the criterion of "disposal is expected to be completed within one year" on the date of acquisition, and is probable to satisfy other criteria of classifying as held for sale shortly (usually within 3 months), are classi ed as held for sale on the date of acquisition. At initial measurement, the amounts initially measured assuming it is not classi ed as held for sale and the fair value less cost of disposal are compared, and the lower of the two is measured. Other than non-current assets or disposal groups acquired in a business combination, the difference arising from recognising the fair value less cost of disposal of non-current assets or disposal groups as initial measurement is recognised in pro t and loss in the period.

(3) Where the Group has lost control of a subsidiary due to reasons such as disposal of investment in the subsidiary, regardless of the Group retains any part of equity investment after disposal, upon the investment in the subsidiary intended to be disposed satisfying the criterion for classification as held for sale, the investment in the subsidiary will be entirely classi ed as held for sale in the separate nancial statements of the parent company, and all assets and liabilities of the subsidiary are classified as held for sale in the consolidated nancial statements.

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18. A e held fo ale *(c ed)*

(4) Where there is an increase in fair value less cost of disposal of a non-current asset held for sale on subsequent balance sheet dates, the amount previously written down should be recovered and reversed in the impairment loss of assets recognised after classification as held for sale, with the reversed amount recognised in pro□t and loss of the period. Asset impairment loss recognised before classi□cation as held for sale is not reversible.

(5) Asset impairment loss recognised for disposal groups held for sale is □rst offset against the book value of goodwill of disposal groups, and then offset against the book values proportionally according to the share of book value of each non-current asset.

Where there is an increase in fair value less cost of disposal of a disposal group held for sale in subsequent balance sheet dates, the amount previously written down should be recovered and reversed in asset impairment loss of non-current assets recognised as required by the appropriate relevant measurement after classi□cation as held for sale, with the reversed amount recognised in pro□t and loss of the period. The book value of the offset goodwill and impairment loss of non-current assets recognised before classi□cation as held as for sale are not reversible.

Reversed amount after the recognition of asset impairment loss of the disposal group held for sale should be added proportionally to the book value share according to the share of the book value of each non-current asset in the disposal group other than goodwill.

(6) No provision for depreciation or amortisation of non-current assets or non-current assets in disposal groups held for sale is made, and the interest on liabilities and other expenses of disposal groups held for sale continues to be recognised.

(7) When a non-current asset or a disposal group held for sale no longer satis□es the criteria of classi□cation as held for sale and ceases to be classi□ed as held for sale, or a non-current asset is removed from the disposal group held for sale, it is measured is based on the lower of the following: 1) the book value before classi□cation as held for sale adjusted by recognition of depreciation, amortisation or impairment assuming there was no classi□cation as held for sale; 2) the recoverable amount.

(8) Upon derecognition of a non-current asset or a disposal group held for sale, the unrecognised gain or loss is accounted for in pro□t or loss of the period.

19. Long- e m e i in e men

Long-term equity investments include the Group's investments in subsidiaries, investments in associates and jointly ventures.

Our judgement of joint control is based on the fact of arrangements that all participants involved or groups of participants jointly control and that policies of relevant activities must be unanimously agreed by participants who jointly control the arrangement.

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19. Long- e m e i in e men *(c ed)*

When the Group owns 20% or above but less than 50% of the voting right of the investee directly, or indirectly through subsidiaries, it is considered to have a signi□cant in□uence on the investee. If the voting right in the investee is less than 20%, the in□uence on investee will be decided based on facts and circumstances including representatives in the board of directors of similar authority of the investee, or participation in the process of formulating the □nancial and operating policies of the investee, having signi□cant transactions with the investee, dispatching management personnel to the investee, and providing key technology and data to the investee.

An investee that is under the control of the Group is deemed as a subsidiary of the Group. For long-term equity investments acquired through a business combination under common control, they will be used as the initial investment cost of long-term equity investment according to the share of the consolidated party in the book value of net assets in the □nancial statements of the ultimate controlling party on the date of consolidation. If the book value of net assets of the consolidated party at the date of consolidation is negative, long-term equity investment cost is recognized as nil.

For shareholding which obtained by different transactions in stages and become business combination □nally, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, according to proportion of fair value of net assets of acquiree after the combination in the consolidated □nancial statements, and accounted as the initial investment cost of long-term investment. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insuf□cient, any excess is adjusted to retained earnings.

For long-term equity investment acquired through business combination under uncommon control, consolidation cost will be treated as the initial investment cost.

For shareholding which obtained by different transactions in stages and become business combination □nally, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, Initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the invested company when it directly dispose related assets or liabilities upon disposal. For shareholding which it holds before acquisition and accounted for under fair value method in the available-for-sale financial assets, the accumulated change in fair value which is originally included in other comprehensive income shall be change to pro□t or loss for the current period on the date of combination.

Apart from the long-term equity investments acquired through business merger, long-term equity investments acquired by cash will be used as investment cost according to the actual payment of the purchase price; long-term equity investments acquired through issuance of equity securities will be used as investment cost according to the fair value of the equity securities issued; long-term equity investments from investors will be used as investment cost according to the investment contracts or agreement value. If the Company holds long-term equity investments acquired through debt restructuring, non-monetary asset exchange, etc., the method of recognition of investment cost should be determined according to the requirements of the relevant business accounting standards and the disclosure of the Company's actual conditions.

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19. Long- e m e i in e men *(c ed)*

The Group's investments in subsidiaries are accounted for using the cost method and using equity method for the investments in joint ventures and associates.

For long-term equity investments for which the subsequent measure is accounted for using cost method, when making additional investment, carrying value of the long-term equity investments will be added according to the fair value of cost of additional investment and the related expenses incurred by related transactions. For cash dividend or pro□t paid by the invested company, it shall be recognized as investment income for the current period using the amount which it entitles.

For long-term equity investment for which the subsequent measurement is accounted for under equity method, carrying value of long-term equity investment shall be increased or decreased accordingly according to the change in the shareholders equity of the invested company. When determining the amount of proportion of net pro□t or loss in the invested company which it entitles, fair value of each identi□able assets of the invested company at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, and after offsetting profit or loss incurred in internal transaction between associates and joint ventures, and calculate the proportion which is attributable to the investing company according to the shareholding, and recognized after adjustment is made to the net pro□t of the investees.

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognized as investment income for the period. For long-term investments accounted for under equity method, the movements of shareholder's equity, other than the net pro□t or loss, of the investee company, previously recorded in the shareholder's equity of the Company are recycled to investment income for the period on disposal.

When the Company ceases to have control or signi□cant in□uence on the invested company due to the reasons such as disposal of part of its equity investment, the remaining shareholding after disposal shall be accounted for under available- for-sale □nancial assets, and the difference between fair value and the carry value on the date of loss of common control or signi□cant in□uence will be included in the pro□t or loss for the current period. Other comprehensive income recognized in the original equity investment which is accounted for using equity method, upon it will no longer be accounted for under equity method it shall be using the same accounting basis as the invested company directly disposing related assets or liabilities.

For loss of control in the invested company due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the invested company after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted as under available-for sale □nancial assets, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment pro□t or loss for such period.

For each transaction which equity are disposed in stages until loss of control, which does not belong to package transaction, the accounting for each transaction shall be conducted separately. For the package transaction, the accounting for each transaction shall be treated as disposing subsidiary and loss of its control. However, the difference between each disposal price before loss of control and the carrying value of the corresponding long-term investment of the equity disposed, shall be recognized as other comprehensive income, and shall be transfer to the pro□t or loss for the current period upon loss of control.

III. Significant Accounting Policies and Accounting Estimates *(c ed)*

20. Fi ed a e

(1) C i e ia fo ecogni ion

Fixed assets are tangible assets with signi□cant value and useful lives for more than one year, and held for use in the production goods, renting of services, for rental, or for administrative purposes. Fixed assets are recognized when it is highly probable of economic bene□ts in□ow to the Group and their costs can be measured reliably. The Group's □xed assets include buildings, machinery, electronic equipment, vehicles and other equipment.

(2) De ecia ion me hod

Ca ego	De ecia ion me hod	De ecia ion e iod (ea)	Re id al al e a e (%)	Ann al de ecia ion a e (%)
Buildings	Straight-line	20	5	4.75
Machinery	Straight-line	5–20	5	19.00–4.75
Electronic equipment	Straight-line	3–5	5	31.67–19.00
Vehicles	Straight-line	5	5	19.00
Other equipment	Straight-line	5	5	19.00

The Group reviews the expected life of use, estimated net residual value and depreciation method of □xed assets at the end of each year, and changes, if any, are treated as changes in accounting estimates.

21. Con c ion-in- og e

Construction in progress is carried forward to □xed assets from the date when it is ready for its intended use according to its project budget, project fee or actual project cost, and depreciation is provided commencing from the next following month. Upon the completion of □nal account audit of the completed project, adjustment will be made for any difference from the original value of the □xed assets.

22. Bo o ing co

In terms of the borrowing costs involving □xed assets, investment real estate and inventory directly attributable to over one year construction or production to achieve its intended use or sale, the capitalization of the borrowing costs can commence only when all of the conditions are satis□ed; expenditures for the asset are being incurred, borrowing costs are being incurred, and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. When the quali□ed asset under acquisition, construction or production is ready for the intended use or sale, the capitalisation of the borrowing costs shall be ceased. The amount of other borrowing costs shall be recognised in pro□ts of losses in the current period. If the quali□ed asset is interrupted abnormally during construction or production, and interruption has lasted for three consecutive months, the capitalisation of the borrowing costs shall be suspended until the construction or production of a □xed assets is resumed.

The amount of interest of speci□c borrowings occurred for the period shall be capitalised after deducting any interest earned from depositing the unused speci□c borrowings in the bank or any investment income arising on the temporary investment of those borrowings during the capitalisation period. The capitalised amount of general borrowings shall be determined on the basis that the weighted average (of the excess amounts of cumulative assets expenditures over the speci□c borrowings) times capitalisation rate (of used general borrowings). The rate of capitalisation is determined by the weighted average interest rate of general borrowing.

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23. Righ -of- e a e

A right-of-use asset is a right to use a leased asset by the Group, as a lessee, within a lease term.

(1) Ini ial mea emen

At the commencement of a lease term, the Group initially measures a right-of-use asset at cost, which comprises the following four elements: ① the amount of lease liability initially measured; ② the lease payment made on or before the commencement date of lease term, net of any incentives received; ③ any initial expenses directly incurred, that is the incremental cost incurred to obtain the lease; ④ the costs expected to be incurred in dismantling and removing the leased asset, restoring the site on which it is located or restoring the leased asset to the condition required by the terms and conditions of the lease, unless it is incurred from the production of inventories.

(2) S b e en mea emen

After the commencement date of lease term, the Group subsequently measures the right-of-use asset on a cost basis, that is to measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment losses.

The Group remeasures lease liabilities according to the requirements under the standard of leases and makes corresponding adjustment to the carrying amount of right-of-use assets.

(3) De ecia ion of igh -of- e a e

A right-of-use asset is depreciated from the commencement date of lease term. Generally, depreciation of a right-of-use asset starts from the month when the lease commences. The depreciation amount is charged to the cost of the right-of-use asset or pro□t or loss according to the use of the underlying asset.

When determining the depreciation method of a right-of-use asset, the Group considers the expected consumption of economic benefits in respect of the right-of-use asset and depreciates the asset on a straight-line basis.

In determining the useful life of a right-of-use assets, the Group follows the principles below: if it can reasonably be certain that the ownership right will be obtained upon expiry of the lease term, the right-of-use asset is depreciated over the remaining useful life; if it cannot reasonably be certain that the ownership right will be obtained upon expiry of the lease term, the right-of-use asset is depreciated over the shorter of the lease term and the remaining useful life of the right-of-use asset.

If the right-of-use asset is impaired, depreciation is made at the carrying amount of the right-of-use asset after deduction the impairment losses.

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24. In angible A e

(1) Mea emen me hod, ef l life and im ai men e

The Group's intangible assets mainly include land use right, maritime use right, patented technology, non-patented technology and software, etc. Intangible assets are measured at the actual costs at acquisition. For purchased intangible assets, actual paid cost and other relevant expenses are used as the actual cost. For intangible assets invested by investors, the actual cost is determined according to the values speci□ed in the investment contract or agreement, while for the unfair agreed value in contract or agreement, the actual cost is determined at the fair value. The intangible asset, which is owned by the acquiree in a combination under different control but is not con□rmed in the □nancial statement, shall be con□rmed as intangible asset at its fair value upon the initial recognition on the acquiree's assets.

For intangible assets with de□nite useful lives, the Group adopts straight line method for amortization at the month of acquisition. The Group amortizes land use right, maritime use right on the basis of its useful life by straight line method since it is acquired. The patent technology, non-patent technology and other intangible assets are amortized evenly on the basis of shorter of estimated useful life, stipulated bene□cial year by contract, and legal available year. The amortization amount is accounted into pro□t and loss in the current period. The Group makes the assessment on the estimated useful life and amortization method of intangible assets with limited useful life at the end of each year. Any changes will be dealt with as changes on accounting estimates.

Those without foreseeable period to bring economic benefits to the Group due to various reasons are recognised as intangible assets with inde□nite useful life. The Group will review the useful lives on those intangible assets with inde□nite useful lives at each of the accounting period.

(2) Acco n ing olic ega ding he e endi e on he in e nal e ea ch and de elo men

The Group's major research and development projects relate to tubing and casing of different models and materials.

With reference to the nature of expenditures and uncertainty of the □nal achievement, expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

From early investigations to the applications after maturity, the new product R&D projects of the Group shall undergo the two phases of research and development: the phase of research includes such stages as investigation, substantiation, the initiation and approval of annual new product R&D plans, early researches (including formula design, process design, equipment selection, formulation of technical standards, etc.), the preparation and approval of monthly new product R&D plans and so on, among which the completion of approval of monthly new product R&D plans symbolizes the end of the phase of research for a new product. The phase of development includes speci□cally such stages as trial production of the new product, project acceptance, etc., the latter of which symbolizes the end of the phase of development for a new product.

Start time of the phase of development: the point when the approval of monthly new product R&D plans is completed, the early researches are completed and the formula, production process and technical standards for the product are □nalised.

Expenditure at the research phase is recognised in pro□t or loss of the period in which it is incurred.

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24. In angible A e *(c ed)*

(2) Acco n ing olic ega ding he e endi e on he in e nal e ea ch and de elo men *(c ed)*

Expenditure on the development phase is recognised as an intangible asset when all of the following criteria are met:

1) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

2) the management's intention to complete, use or sell the intangible asset;

3) the Group can demonstrate the ways in which the intangible asset will generate economic bene□ts, 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, □nancial and other resources to complete the development and the ability to use or sell the intangible asset;

5) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure on the development phase which does not meet the above criteria is included in pro□t or loss of the period in which it is incurred. Expenditure in the development phase which has been included in the profit or loss in the prior period will not be recognised as asset in subsequent period. The capitalised expenditures in development phase are presented as development expenditure in the balance sheet and it is carried down into the intangible asset since the date when the asset is ready for its intended use.

25. Im ai men of long- e m a e

The Company assesses items such as long-term equity investments, investment properties measured at cost, □xed assets, construction-in-progress, right-of-use assets, intangible assets with de□nite life and operating lease assets, the Company conducts impairment test where there is any indication of impairment. Intangible assets with indefinite goodwill and useful life are tested at the end of each year for impairment, whether indication of impairment exist or not.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash □ows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash □ows expected to be derived from the asset over the course of continued use and □nal disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash □ows independently.

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25. Im ai men of long- e m a e *(c ed)*

When performing impairment test on goodwill that is separately presented in the nancial statements, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to bene t from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is rst deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

If the carrying amount of such asset exceeds its recoverable amount after impairment test, the difference is recognised as impairment losses. The above impairment losses is irreversible in the subsequent accounting period once recognised.

26. Long- e m defe ed e en e

The Group's long-term deferred expenses will be amortized evenly during its bene cial period, If the long-term prepayments are no longer bene cial to the subsequent accounting periods, the unamortized balance is then fully transferred to pro t or loss for the current period.

27. Con ac liabili ie

Contract liabilities represent the obligation of the Group to transfer goods to customers for the consideration which has been received or receivable from customers. Where customers have already paid the contract consideration or the Group has obtained the unconditional right to receive the contract consideration before the Group transfers the goods to customers, the amount received or receivable is recognised as contract liabilities when the customers' payment is actually made or is due, whichever is earlier.

28. Em lo ee com en a ion

(1) Acco n ing fo ho - e m em lo ee com en a ion

The Group's employee compensations include short-term compensation, post-employment benefits, termination bene ts and other long-term bene ts.

Short-term employee bene ts include staff salaries, bonuses, allowances and subsidies, employee welfare expenditures, social security contributions (e.g. compensation insurance, work injury insurance and birth insurance), housing funds, union running costs, employee education costs, short-term paid leaves, short-term pro t sharing schemes, non-monetary welfare and other short-term salaries. The Group recognises employee remuneration payables as liabilities during the accounting period in which employees render their services and included in profits or losses in the current period or related cost of assets based on the bene ciaries of the services.

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28. Em lo ee com en a ion *(c ed)*

(2) Acco n ing fo o -em lo men bene

Post-employment bene ts mainly include basic pension insurance, unemployment insurance and others. Based on the Company's risks and obligations, they are classi ed as de ned contribution plans and de ned bene t plans. As for the de ned contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognised as liabilities on the balance sheet date and included in profit or loss of the period or relevant asset costs according to the bene ciaries. The Group has currently no de ned bene t plan.

(3) Acco n ing fo e mina ion bene

The Group has currently no termination bene ts.

(4) Acco n ing fo o he long- e m com en a ion

The Group has currently no other long-term compensations.

29. Lea e liabili ie

(1) Ini ial mea emen

The Group initially measures a lease liability at the present value of outstanding lease payments at the commencement date of the lease term.

1) Lea e, a e

A lease payment refers to the amount paid by the Group to a lessor in relation to the right to use a leased asset during the lease term, which includes: ① the xed payments and the substantial xed payments, net of the lease incentive amount, if any; ② the variable lease payments depending on an index or ratio, which are determined at the time of initial measurement based on the index or ratio on the commencement date of the lease term; ③ the price of exercising the option to purchase, if the Company can reasonably be certain that it will exercise the option; ④ the amount payable to exercise the option to terminate the lease, if the lease term re ects that the Group will exercise the option to terminate the lease; ⑤ the amount payable based on the residual value of the guarantee provided by the Group.

2) D c a e

In calculating the present value of a lease payment, the Group uses the interest rate implicit in the lease as the discount rate, which is a rate that matches the sum of the present value of the lease receipts of the lessor and the present value of unguaranteed residual value with the sum of the fair value of the leased asset and the initial direct expenses incurred by the lessor.

(2) S b e en mea emen

After the commencement date of the lease term, the Group follows the principles below for the subsequent measurement of a lease liability: ① to increase the carrying amount of the lease liability when recognizing the interest on the lease liability; ② to reduce the carrying amount of the lease liability when a lease payment is made; ③ to remeasure the carrying amount of the lease liability when there is a change in lease payment due to a change of reassessment or the lease.

III. Significant Accounting Policies and Accounting Estimates *(c ed)*

29. Lea e liabili ie *(c ed)*

(2) S b e en mea emen *(c ed)*

The interest expenses of a lease liability in each period during the lease term based on xed periodic interest rate are charged to the pro t of loss of the current period, except those are capitalised. Periodic interest rate is the discount rate used by the Group for initial measurement of the lease liability, or the revised discount rate used by the Group when remeasuring the lease liability at the revised discount rate due to a change of lease payments or a change of the lease.

(3) Remea emen

After the commencement date of the lease term, the Group remeasures the lease liability based on the lease payments after the change and the revised discount rate, with a corresponding adjustment made to the carrying amount of the righ-of-use asset. The carrying amount of the right-of-use asset is reduced to zero. If there is any further reduction of the lease liability, the Group charge the remaining amount to the pro t or loss for the current period. ① There is a change in the substantial xed payment; ② There is a change in projected payable of the guarantee residual value; ③ There is a change in the index or ratio used for determining the lease payment; ④ There is a change in the assessment result of the purchase option; ⑤ There is a change in the assessment result of the extension or termination option or the actual exercise of the option.

30. P o i ion

A provision is recognised as a liabilities when an obligation related to a contingency, such as guarantees provided to outsiders, pending litigations or arbitrations, product warranties, redundancy plan, onerous contract, reconstructing, expected disposal of xed assets, satis ed all of the following conditions: the obligation is a present obligation of the Group; 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.

A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Considering the factors, such as risk, uncertainties, and time value of money related to the contingencies. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash out ows. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

If all or part of the expense necessary for settling the provisions is expected to be compensated by the third party, the amount of compensation is separately recognised as an asset when it is basically determined to be recoverable, and the recognised amount of the compensation shall not exceed the carrying amount of the provisions.

The Group reviews the carrying amount of provisions at the balance sheet date and makes appropriate adjustments to re ect the current best estimate.

31. P od c ion Safe Fee

The Group collects, utilises and reviews the production safety fee pursuant to the relevant requirements of Notice of the Ministry of Finance and the State Administration of Work Safety on Issuing the Administrative Measures for the Collection and Utilization of Enterprise Work Safety Funds (No. 16 [2012] of the Ministry of Finance and the State Administration of Work Safety) and Notice of the Ministry of Finance on Issuing Interpretation No. 3 of the Accounting Standards for Business Enterprises (No. 8 [2009] of the Ministry of Finance).

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31. P od c ion Safe Fee *(c ed)*

The provision of Group's machinery production enterprise safety production costs is based on the actual sales revenue in last year, which is extracted monthly by taking excess regressive manner in accordance with the following standard. The provision will be used for enhancing and improving safe production conditions of enterprises or projects.

(1) Operating income of RMB10 million and below, accrued in accordance with 2%;

(2) Operating income of RMB10 million to RMB100 million (inclusive), accrued in accordance with 1%;

(3) Operating income of RMB100 million to RMB1,000 million (inclusive), accrued in accordance with 0.2%;

(4) Operating income of RMB1,000 million to RMB5,000 million (inclusive), accrued in accordance with 0.1%;

(5) Operating income above RMB5,000 million, accrued in accordance with 0.05%.

The provision of the production safety fee for newly established enterprises and machinery production enterprise with production less than one year is based on actual sales revenue for the year. The provision is accrued monthly.

The provision of production safety fee is recognized in pro□t and loss for the current period and "special reserve" account shown separately under owner's equity. When using the reserve for maintaining production safety fee, the amount will be debited from the "special reserve" if the fee is expenses nature. When using the reserve for maintaining production safety fee of □xed asset, the amount will be debited from the "construction-in-progress" item for the amount recorded in the cost of related assets. When the status of the project is ready for intended use, the costs of such production safety fee should be recognised as □xed assets. Meanwhile, "special reserve" will be offset by the cost forming □xed asset. If the balance of "special reserve" is inadequate for offsetting purpose, the production safety fee will be recognised in pro□t and loss for the current period.

32. Re en e

Whether the new standard for revenue has been adopted or not

✓ Yes ☐ No

Accounting policy adopted for the recognition and measurement of revenue

The Group's operation revenue is mainly from sale of goods, provision of services and interest income.

(1) P inci le of e en e ecogni ion

Revenue is recognised when the Group satis□es the performance obligation in the contract by transferring the control over relevant goods or services to the customers.

Where a contract has two or more performance obligations, the Group determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone selling prices. The Group recognises as revenue the amount of the transaction price that is allocated to each performance obligation.

III. Significant Accounting Policies and Accounting Estimates *(c ed)*

32. Re en e *(c ed)*

(1) P inci le of e en e ecogni ion *(c ed)*

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Group recognises the transaction price only to the extent that it is highly probable that a signi□cant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The consideration which the Group expects to refund to the customer is recognised as liabilities and excluded from transaction price. Where the contract contains a significant financing component, the Group recognizes the transaction price at an amount that re□ects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer. The difference between the amount of promised consideration and the cash selling price is amortised using an effective interest method over the contract term. The Group does not adjust the consideration for any effects of a signi□cant □nancing component if it expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group satis□es a performance obligation over time if one of the following criteria is met; or otherwise, a performance obligation is satis□ed at a point in time:

1) the customer simultaneously receives and consumes the bene□ts provided by the Group's performance as the Group performs.

2) the customer can control the asset created or enhanced during the Group's performance.

3) the Group's performance does not create an asset with an alternative use to it and the Group has an enforceable right to payment for performance completed to date.

For performance obligation satis□ed over time, the Group recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation, which is determined by input method. When the outcome of that performance obligation cannot be measured reasonably, but the Group expects to recover the costs incurred in satisfying the performance obligation, the Group recognises revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

For performance obligation satis□ed at a point in time, the Group recognises revenue at the point in time at which the customer obtains control of relevant goods or services. To determine whether a customer has obtained control of goods or services, the Group considers the following indicators:

1) the Group has a present right to payment for the goods or services.

2) the Group has transferred the legal title of the goods to the customer.

3) the Group has transferred physical possession of the goods to the customer.

4) the Group has transferred the signi□cant risks and rewards of ownership of the goods to the customer.

5) the customer has accepted the goods or services.

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32. Re en e *(c ed)*

(1) P inci le of e en e ecogni ion *(c ed)*

The Group's right to consideration in exchange for goods or services that it has transferred to a customer is stated as contract asset. The Group recognises allowances for impairment loss for expected credit loss on contract assets. Receivable is the Group's unconditional right to consideration to be received from a customer. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(2) S ecik c acco n ing olicie ela ed o he main ac i i ie of he Com an ' e en e a e de c ibed belo :

① *C ac f a e f g d*

Contracts for sale of goods between the Group and its customers usually include only the performance obligations in respect of the transfer of goods. In general, the Group recognizes revenue at the point in time when the customer accepts the control of the goods, taking into full consideration of the following factors: obtaining the present right to receiving payment in respect of the goods; transfer of substantial risks and returns in respect of the title to the goods; transfer of legal title in respect of the goods; transfer of the physical asset of the goods; and the acceptance of goods by customers.

② *C ac f f e ce*

Contracts for provision of services between the Group and its customers usually contain performance obligations such as technical services and after-sale maintenance services. While the Group performs the contract, the customer obtains and consumes the economic benefit brought by the Group's performance, and in respect of the portion of revenue arising from the Group's performance completed to date, the Group is entitled, during the entire validity period of the contract, to recognise revenue according to progress of performance within such period for satisfying such performance obligations during a period of time, however other than circumstances that the progress of performance cannot be reasonably determined. The Group determines progress of performance in respect of the provision of services using input method. When the progress of performance cannot be reasonably determined, if the costs incurred are expected to be compensated, the Group recognises revenue based on the amount of costs incurred, until the progress of performance can be reasonably determined.

The adoption of different business models for the same type of business will lead to different accounting policies for revenue recognition.

33. Go e nmen g an

The Group's government grants include nancial funding, interest subsidy for loans and tax rebates, of which government grants related to assets represent the government grants obtained by the Group and applied towards acquiring and constructing or otherwise develop long-term assets. Government grants related to income represent the government grants other than those related to assets. If no grantee is speci ed in the government documents, the Group shall determine based on the above classi cation principles, otherwise, it is classi ed as a government grant related to income in its entirety.

III. Significant Accounting Policies and Accounting Estimates *(c ed)*

33. Go e nmen g an *(c ed)*

If a government grant is a monetary asset, it is measured at the amount actually received. For the grants being allocated in accordance with □xed quotas, or if there is suf□cient evidence at end of the year to show that the entity complies with the conditions of □nancial policies and is expected to receive supporting funds, the grants shall be measured at receivable amount. If a government grant is a non-monetary asset, it is measured at its fair value, and in the event the fair value cannot be acquired in a reliable way, it is measured at its nominal amount (RMB1).

Government grants related to assets are recognised as deferred income and are allocated evenly to pro□t or loss for the period over the useful life of the relevant asset. The balance of undistributed deferred income of a related asset which is disposed, transferred, retired or damaged before the end of its useful life is transferred to gain or loss of disposal of assets for the period.

If a government grant related to income is to compensate the related cost, expenses or losses to be incurred in subsequent periods, it is recognised as deferred income, and is recognised in pro□t or loss for the period when the related cost, expenses or losses incurred. If a government grant is related to the ordinary activities, it is included in other income based on the economic substance of the business. Government grants not related to the ordinary activities are included in non-operating income or expenses.

Interest subsidies for policy-related preferential loans obtained by the Group are classi□ed as interest subsidy funds paid to lending banks or interest subsidy funds directly paid to the Group, which are accounted for based on the following principles:

(1) for interest subsidy funds paid to lending banks, the lending banks provide loans to the Group at policy-related preferential rates, and the Group recognises the borrowing amount actually received as the book value of the borrowing, and calculates the relevant borrowing expenses based on the principal and the policy-related preferential rate of the borrowing.

(2) For interest subsidy funds paid directly to the Group, the Group will offset the corresponding interest subsidy against the relevant borrowing expenses.

For government grants recognised that needs to be returned, the Group accounts the returning amount in the period according to the following:

1) Where it has been offset against the carrying value of the relevant asset on initial recognition, the carrying value of the asset is adjusted.

2) Where relevant deferred income exists, the balance of the carrying amount of the relevant deferred income is offset and the excess is recognised in pro□t or loss for the period.

3) In other cases, it is directly recognised in pro□t or loss for the period.

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34. Defe ed income a a e /defe ed income a liabili ie

Deferred income tax assets and deferred income tax liabilities of the Group are calculated and recognised based on the difference between tax bases and carrying amounts of assets and liabilities (temporary differences). Deferred income tax asset is recognised for the deductible losses that are deductible against taxable pro□t in subsequent years in accordance with the requirements under tax laws. No deferred tax liability is recognized for temporary difference arising from initial recognition of goodwill. No deferred income tax asset or deferred income tax liability is recognised for a temporary difference arising from initial recognition of asset or liability due to a transaction other than a business combination, which affects neither accounting pro□t nor taxable pro□t (or deductible loss). At balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates for the period when the asset is expected to be realized or the liability is expected to be settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available to deduct from the deductible temporary difference, deductible losses and tax credits.

35. Lea e

(1) Iden ica ion of lea e

A lease is a contract under which the lessor conveys the right to use an asset to the lessee for a period of time in exchange for consideration. At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of one or more identi□ed assets for a period of time in exchange of consideration. To determine whether a contract conveys the right to control the use of an identi□ed asset, the Group assesses whether the lessee has the right to obtain substantially all of the economic bene□ts from the use of the identi□ed asset throughout the period of uses, and also whether the lessee has the right to direct the use of the identi□ed asset.

For a contract that contains multiple lease components, the Group separates the contract and accounts for each lease component as a lease separately. For a contract that contains lease and non-lease components, the Group separates and accounts for the lease and non-lease components.

(2) The G o a a le ee

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease term. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, the lease payments made at or before the commencement date of the lease term (net of any lease incentives received), any initial direct costs incurred and an estimate of costs expected to be incurred in dismantling and removing the lease asset or restoring the site on which the lease asset is located, or restoring the lease asset to the condition required by the terms and conditions of the lease.

As a lessee, the Group recognises right-of-use assets and lease liabilities for leases.

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35. Lea e *(c ed)*

(2) The G o a a le ee *(c ed)*

1) M d ca f ea e

Modi□cations of leases refer to the changes in the lease scope, lease consideration, and lease term other than the original contract terms, including the addition or termination of the rights of use of one or more leased assets, and the extension or shortening of the lease term stipulated in the contract. The effective date of the modi□cations of leases is a date □xed for the modi□cation of the lease as agreed by both parties.

If modification of lease happens and meets the following conditions, the Group accounts for the modi□cation of lease as a separate lease: ① the modi□cation of lease expands the scope of lease by adding right of use of one or more leased assets; ②the increased consideration and the standalone price of the expanded part of lease are equivalent after adjustment is made based on the contract.

If the modi□cation of lease is not accounted for as a separate lease, on the effective date of the modi□cation of lease, the Group allocates the consideration of the modi□ed contract in accordance with the accounting standard in respect of leases and re-determines the lease term after modi□cation; and discount the lease payments after modification at the discount rate after modification for remeasurement of lease liability. When calculating the present value of the lease payment after modi□cation, the Group uses the interest rate implicit in lease of the remaining lease term as the discount rate. If the interest rate implicit in lease of the remaining lease term cannot be determined, the Group uses lessee's incremental borrowing rate at the effective date of the modi□cation of the lease as the discount rate. The Group accounts for the consequences of the above adjustment under the following circumstances: ① If the modi□cation of lease results in a narrower scope of lease or a shorter lease term, the lessor reduces the carrying amount of the right-of-use asset to re□ect the gain or loss on partly or wholly termination of the lease in the pro□t or loss of the current year. ② For other modi□cations of lease that result in remeasurement of lease liability, the lessee made corresponding adjustment to the carrying amount of the right-of-use asset.

2) S - e ea e a d ea e f - a e a e

For short-term leases with lease term of less than 12 months and leases of a single lease asset which is of relatively low value when it is new, the Group has elected not to recognize right-of-use asset and lease liability. The Group charges the lease payments of short-term leases and the low-value asset leases to the cost of the underlying assets or the pro□t or loss for the current period in each period of the lease term on a straight-line basis.

(3) The G o a a le o

On the basis of determining the contract is or contains a lease as mentioned in (1), the Group, as a lessor, classi□es the lease as □nance lease and operating lease at the inception of the lease.

If a lease transfers, in substance, substantially all of the risks and rewards of the ownership of the leased asset, the lessor classi□es the lease as □nance lease. Other than that, all leases are classi□ed as operating leases.

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35. Lea e *(c ed)*

(3) The G o a a le o *(c ed)*

A lease is usually classi□ed as a □nance lease by the Group when one or more of the following conditions are satis□ed: ① When the lease term expires, the ownership of the leased asset is transferred to the lessee; ② The lessee has the option to purchase the leased asset. The purchase price entered into is suf□ciently low compared to the fair value of the leased asset when the option is expected to be exercised. Therefore, it can be reasonably certain at the commencement date of the lease that the lessee will exercise the option; ③ The ownership of the asset is not transferred, but the lease term takes up most of the useful life of the leased assets (not less than 75% of the useful life of the leased asset); ④ On the commencement date of the lease, the present value of the lease receipt is basically equivalent to the fair value of the leased asset (not less than 90% of the fair value of the leased asset); ⑤ The leased assets are of a special nature. If no major modi□cations are made, it can only be used by the lessee. If one or more of the following indications exist in a lease, the Group may also classify it as a □nance lease: ① If the lessee cancels the lease and the loss caused to the lessor arising from the cancellation of lease is borne by the lessee; ② The gain or loss arising from the fair value change in the balance of the asset belongs to the lessee; ③ The lessee is able to continue the lease for the next period at a rent far below the market level.

1) Acc g f e a g ea e

Ini ial mea emen

At the commencement date of the lease, the Group recognises the finance lease receivables for finance leases and derecognises finance lease assets. On initial measurement of finance lease receivables, the net lease investment is used to record the value of the □nance lease receivable.

The net lease investment is the sum of the unguranteed residual value and the present value of outstanding lease receipts at the commencement date of the lease term (discounted by the interest rate implicit in the lease). A lease receipt is the payment receivable from the lessee by the lessor for conveying the right to use a leased asset within the lease period, which comprises: ① the fixed payments and the substantial □xed payments to be made by the lessee, net of the lease incentive amount, if any; ② the variable lease payments depending on an index or ratio, which are determined at the time of initial measurement based on the index or ratio on the commencement date of the lease term; ③ the price of exercising the option to purchase, provided that it is reasonably certain that the lessee will exercise the option; ④ the amount payable by the lessee for exercising the option to terminate the lease, provided that the lease term re□ects that the lessee will exercise the option to terminate the lease; ⑤ the residual value of the guarantee provided by the lessee, its related party and an independent third party having □nancial capability to ful□l the obligation under the guarantee.

S b e en mea emen

The Group calculates and recognises interest income in each period during the lease term based on □xed periodic interest rate. Periodic interest rate is the implicit discount rate used to determine the net lease investment (For sub-leases where the implicit interest rate cannot be determined, the discount rate of the original lease is used (adjusted by any initial direct expenses in relation to the sub-lease), or the revised discount rate □xed when the modi□cation of the □nance lease is not treated as a separate lease and the leased is classi□ed as □nance lease in accordance with the relevant requirement with the criteria are satis□ed had the modi□cation take effect on the commencement date of the lease.

III. Significant Accounting Policies and Accounting Estimates *(c ed)*

35. Lea e *(c ed)*

(3) The G o a a le o *(c ed)*

1) Acc g f e a g ea e (c ed)

Acco n ing fo lea e modi ca ion

If the finance lease is modified and meets the following conditions, the Group accounts for the modi cation as a separate lease: ① The modi cation expands the lease scope by adding right to use of one or more leased assets; ② The increased consideration is equal to the standalone price of the expanded lease scope as adjusted based on the contract.

If the modi cation of nance lease is not accounted for as a separate lease, and it satis es the criteria of classification of the lease as an operating lease had the modification takes effect on the lease commencement date, the Group accounts for the lease modi cation as a new lease since the effective date of the lease modi cation, with the net lease investment prior to the effective date of the lease modi cation as the carrying amount of the leased asset.

2) Acc g f e a g ea e

T ea men of en

In each period during the lease term, the Group recognises lease receipts from operating lease as rental income on a straight line basis.

Incen i e mea e o ided

For rent-free period, the Group allocates the total rent over the lease term without deducting rent-free period on a straight line basis, and recognises rental income during the rent-free period. If the Group bears certain expenses on behalf of the lessee, such expenses are deducted from the rental income and the balance of rental income after deduction is allocated over the lease term.

Ini ial di ec e en e

The initial direct expenses incurred by the Group in relation to the operating leases are capitalised as cost of the leased asset, and equally charged to the pro t or loss for the current period over the lease term in accordance with the same basis of recognition as rental income.

De ecia ion

For the fixed assets in operating lease assets, they are depreciated using the policy similar to the depreciation of assets. For other operating lease assets, they are amortised on a systematic and reasonable manner.

Va iable lea e a men

The variable lease payments received by the Group that have not included in lease receipts relating the operating leases are credited to the pro t or loss of the current period when they occur.

Modi ca ion of o e a ing lea e

A modi cation of operating lease is accounted for by the Group as a new lease since its effective date. Any prepaid lease payments or lease receivables relating to the modi cation is treated as a receipt for new lease.

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III. Significant Accounting Policies and Accounting Estimates *(c ed)*

36. O he Signi can Acco n ing Policie and Acco n ing E ima e

Acco n ing fo income a

Income tax is accounted for using liability method. Income tax expenses represent the sum of current tax and deferred tax. Current tax and deferred tax relating to the transactions or matters that are directly recorded in shareholders' equity are deal with in shareholders' equity. Deferred tax arising from business combination is adjusted to the carrying value of goodwill. All other current tax and deferred tax are recognised in pro□t or loss for the period.

The tax currently payable is the amount of tax payable to taxation bureau by the enterprises in respect of the

III.

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III. Significant Accounting Policies and Accounting Estimates *(c ed)*

37. Change in ignik can acco n ing olicie and acco n ing e ima e *(c ed)*

(1) Change in ignik can acco n ing olicie *(c ed)*

Note 2: (continued)

(2) Ba a ce ee f e, a e c , a

Unit: RMB

O iginal a emen fo ma		Ne a emen fo ma	
S a emen i em	Amo n	S a emen i em	Amo n
		Bills receivable	271,735,086.30
Bills and accounts receivable	1,037,651,352.65	Accounts receivable	618,706,266.35
		Financing receivables	147,210,000.00
Bills and accounts payable	1,160,447,899.07	Bills payable	883,985,816.54
		Accounts payable	276,462,082.53

(3) C da ed c e a e e

Unit: RMB

O iginal a emen fo ma		Ne a emen fo ma	
S a emen i em	Amo n	S a emen i em	Amo n
Credit impairment losses	37,813,973.27	Credit impairment losses	(37,813,973.27)
Asset impairment losses	10,603,105.42	Asset impairment losses	(10,603,105.42)

(4) I c e a e e f e, a e c , a

Unit: RMB

O iginal a emen fo ma		Ne a emen fo ma	
S a emen i em	Amo n	S a emen i em	Amo n
Credit impairment losses	36,590,741.02	Credit impairment losses	(36,590,741.02)
Asset impairment losses	6,074,363.45	Asset impairment losses	(6,074,363.45)

III. Significant Accounting Policies and Accounting Estimates *(c ed)*

37. Change in ignik can acco n ing olicie and acco n ing e ima e *(c ed)*

(2) Change in ignik can acco n ing e ima e

☐ Applicable ✓ Not applicable

(3) Financial a emen i em a he beginning of ea of im lemen a ion of he Ne Financial In men S anda d, he Ne Re en e S anda d, o he ne adj men o lea e anda d ince 2019

☐ Applicable ✓ Not applicable

(4) De c i ion of e o ec i e adj men o com a a i e fig e fo io e iod on ado ion of he Ne Financial In men S anda d o he Ne Lea e S anda d ince 2019

☐ Applicable ✓ Not applicable

VI. Taxation

1. Main a e and a a e

T e	Calc la ion ba i	Ra e
Value-added tax	According to the Notice on Deepening the Policies Related to Value-Added Tax Reform (Announcement No. 39 of 2019 of the General Administration of Customs of the Ministry of Finance and the State Administration of Taxation) (《關於深化增值稅改革有關政策的公告》（財政部、稅務總局、海關總署公告2019年第39號）) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, effective from 1 April 2019, the original applicable value-added tax rate of 16% for sales of the Company and its subsidiaries in the PRC have been adjusted to 13%.	13%, 16%
Urban maintenance and construction tax	Commodity turnover tax amount actually paid	7%
Enterprise income tax	Taxable pro□ts	15%, 16.5%, 25%
Education surcharge	Commodity turnover tax amount actually paid	3%
Local education surcharge	Commodity turnover tax amount actually paid	2%

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VI. Taxation *(c ed)*

1. Main a e and a a e *(c ed)*

Disclosures regarding taxpaying entities with different enterprise income tax rates

Name of a -a ing en i	Income a a e
The Company	15%
Shouguang Molong Logistic Co., Ltd. (壽光墨龍物流有限公司) ("Molong Logistic")	25%
MPM International Limited ("MPM")	16.5%
Shouguang Baolong Petroleum Material Co., Ltd. (壽光寶隆石油器材有限公司) ("Shouguang Baolong")	25%
Shouguang Maolong New Materials Technology Development Co., Ltd. (壽光懋隆新材料技術開發有限公司) ("Maolong New Materials")	25%
Shouguang Molong Electro-mechanical Equipment Co., Ltd. (壽光墨龍機電設備有限公司) ("Molong Electro-mechanical")	25%
Shouguang Maolong Old Metals Recycle Co., Ltd. (壽光市懋隆廢舊金屬回收有限公司) ("Maolong Recycle")	25%
Wendeng Baolong Recyclable Resource Co., Ltd. (文登市寶隆再生資源有限公司) ("Baolong Resource")	10%
Weihai Baolong Special Petroleum Materials Co., Ltd. (威海市寶隆石油專材有限公司) ("Weihai Baolong")	25%
Shouguang Baolong Management and Consultancy Co., Ltd. (壽光市寶隆管理諮詢有限公司) ("Baolong Consultancy")	25%
Shandong Molong Import & Export Co., Ltd. (山東墨龍進出口有限公司) ("Molong I&E")	25%
Shandong Molong Energy and Technology Co., Ltd. (山東墨龍能源科技有限公司) ("Molong Energy")	25%

2. Ta incen i e

According to the Document Lu Ke Zi [2018] No. 37 (魯科字[2018]37號文件) of "Notice regarding the recognition of 2078 enterprises including Weihai Tuozhan Fibre Co., Ltd as high-tech enterprises in 2017" (《關於認定威海拓展纖維有限公司等2078家企業為2017年度高新技術企業的通知》) issued by the Technology Office of Shandong Province, Finance Office of Shandong Province, State Administration of Taxation of Shandong Province and Local Taxation Bureau of Shandong Province, the Company has been recognised as a high-tech enterprise with the certificate of high-tech enterprise No. GR201737001253 dated on 28 December 2017 for a term of 3 years. The Company is enjoyed a preferential enterprise income tax rate for high-tech enterprises of 15% in the period between 1 January 2017 to 31 December 2019.

V. Notes to the Consolidated Financial Statements

1. Mone a f nd

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Cash on hand	**183,974.68**	506,001.34
Cash at banks	**298,376,840.40**	421,717,103.46
Other monetary funds	**241,381,313.10**	470,229,169.96
Total	**539,942,128.18**	892,452,274.76
Including: total deposits overseas	**2,504,304.42**	2,530,438.71

Other descriptions

(1) The Group's deposits overseas represented the monetary funds of MPM, a Hong Kong-based subsidiary.

(2) The Group's other monetary funds as at the end of the period included bank acceptance security deposits of RMB239,079,167.10 (as at the beginning of the year: RMB455,487,432.73), security deposits for loans of RMB nil (as at the beginning of the year: RMB14,741,737.23), and fixed-rate security deposits of RMB2,302,146.00 (as at the beginning of the year: RMB nil).

(3) The Group had security deposits for bank acceptance bills with maturity date over 3 months of RMB43,685,292.00 (as at the beginning of the year: RMB309,907,792.56).

(4) As at the balance sheet date, there were no funds subject to judicial freezing for litigations.

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V. Notes to the Consolidated Financial Statements *(c ed)*

2. Bill ecei able

(1) P e en a ion of bill ecei able b e

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Trade acceptance bills	**260,237,655.67**	271,735,086.30
Less: Provision for impairment of bills receivable	**(2,602,376.56)**	—
Total	**257,635,279.11**	271,735,086.30

Unit: RMB

	Balance a he end of he e iod					Balance at the beginning of the period				
	Book balance		P o i ion fo bad deb			Book balance		Provision for bad debts		
I em	Amo n	Pe cen age	Amo n	P o i ion a e	Book al e	Amount	Percentage	Amount	Provision rate	Book value
Including: Bills receivable provided for bad debts on a collective basis	**260,237,655.67**	**100.00%**	**2,602,376.56**	**1.00%**	**257,635,279.11**	271,735,086.30	100.00%	–	–	271,735,086.30
Including: Bills receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	**260,237,655.67**	**100.00%**	**2,602,376.56**	**1.00%**	**257,635,279.11**	271,735,086.30	100.00%	–	–	271,735,086.30
Total	**260,237,655.67**	**100.00%**	**2,602,376.56**	**1.00%**	**257,635,279.11**	271,735,086.30	100.00%	–	–	271,735,086.30

Bills receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

	Balance a he end of he e iod		
Name	**Book balance**	**Bad deb o i ion**	**P o i ion a e**
Within 1 year	260,237,655.67	2,602,376.56	1.00%
Total	260,237,655.67	2,602,376.56	—

V. Notes to the Consolidated Financial Statements *(c ed)*

2. Bill ecei able *(c ed)*

(1) P e en a ion of bill ecei able b e *(c ed)*

Descriptions of basis for determining the group:

The above bills receivable of the Group as at the end of the year were all aged within 1 year.

Provision for bad debts on a collective basis:

☐ Applicable ✓ Not applicable

(2) P o i ion, eco e o e e al of o i ion fo bad deb fo he e iod

Provisions for bad debts for the period:

Unit: RMB

		Mo emen d ing he e iod			
T e	Balance a he beginning of e iod	P o i ion	Reco e o e e al	W i e-off	Balance a he end of he e iod
Provisions for impairment of bills receivable	—	2,602,376.56	—	—	2,602,376.56
Total	—	2,602,376.56	—	—	2,602,376.56

Including any signi□cant recovery or reversal of provision for bad debts for the period:

☐ Applicable ✓ Not applicable

(3) Pledged bill ecei able of he Com an a end of e iod

Unit: RMB

I em	Pledged amo n a he end of he e iod
Trade acceptance bills	149,703,328.78
Total	149,703,328.78

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V. Notes to the Consolidated Financial Statements *(c ed)*

2. Bill ecei able *(c ed)*

(4) Bill ecei able ha ha e been endo ed o di co n ed a he end of he e iod and ha e no e e i ed a he balance hee da e:

Unit: RMB

I em	Amo n de ecogni ed a a he end of he e iod	Amount not derecognised as at the end of the period
Trade acceptance bills		87,557,572.20
Total		87,557,572.20

(5) Bill an fe ed o acco n ecei able d e o non-e fo mance of d a e a he end of he ea

The Group had no bills transferred to accounts receivable due to non-performance of drawers at the end of the year.

(6) W i e-off of bill ecei able fo he e iod

The Group had no bills receivable that have been written off at the end of the year.

3. Acco n ecei able

(1) Di clo e of acco n ecei able b e

Unit: RMB

V. Notes to the Consolidated Financial Statements *(c ed)*

3. Acco n ecei able *(c ed)*

(1) Di clo e of acco n ecei able b e *(c ed)*

Provision for bad debts on an individual basis: Accounts receivable provided for bad debts on an individual basis due to signi□cantly different credit risk

Unit: RMB

	Balance a he end of he e iod			
Name	**Book balance**	**Bad deb o i ion**	**P o i ion a e**	**Rea on fo o i ion**
Hebei Zhongtai Steel Pipe Manufacture Company Limited (河北中泰鋼管製造有限公司)	19,965,734.73	3,993,146.95	20.00%	Provision was made based on the expected credit loss amount of the customer
Total	19,965,734.73	3,993,146.95	—	—

Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

	Balance a he end of he e iod		
Name	**Book balance**	**Bad deb o i ion**	**P o i ion a e**
Within 1 year	490,103,181.90	4,901,031.81	1.00%
1–2 years	168,705.00	84,352.50	50.00%
2–3 years	2,867,987.41	2,150,990.56	75.00%
3–5 years	37,219,584.90	31,636,647.17	85.00%
Over 5 years	85,233,146.34	85,233,146.34	100.00%
Total	615,592,605.55	124,006,168.38	—

If provision for bad debts of accounts receivables was made using the general approach of expected credit loss, please disclose the information on provision for bad debts with reference to the disclosures of other receivables:

☐ Applicable ✓ Not applicable

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V. Notes to the Consolidated Financial Statements *(c ed)*

3. Acco n ecei able *(c ed)*

(1) Di clo e of acco n ecei able b e *(c ed)*

D c e b age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	490,103,181.90
1 to 2 years	168,705.00
2 to 3 years	2,867,987.41
Over 3 years	142,418,465.97
3 to 4 years	18,568,664.26
4 to 5 years	38,616,655.37
Over 5 years	85,233,146.34
Total	635,558,340.28

(2) P o i ion, eco e o e e al of o i ion fo bad deb fo he e iod

Provisions for bad debts for the period:

Unit: RMB

T e	Balance of he beginning of he e iod	Mo emen d ing he e iod			Balance of he end of he e iod
		P o i ion	Reco e o e e al	W i e-off	
Provisions for bad debts of accounts receivable	123,440,086.96	4,768,618.30	—	209,389.93	127,999,315.33
Total	123,440,086.96	4,768,618.30	—	209,389.93	127,999,315.33

(3) Acco n ecei able i en off d ing he e iod

Note: The Company did not write off any accounts receivable during the year.

V. Notes to the Consolidated Financial Statements *(c ed)*

3. Acco n ecei able *(c ed)*

(4) Balance of o K e acco n ecei able a a he end of he e iod b deb o

Unit: RMB

En i name	Balance of acco n ecei able a he end of he e iod	Pe cen age o he o al balance of acco n ecei able a he end of he e iod	Balance of bad deb o i ion a he end of he e iod
Entity I			

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V. Notes to the Consolidated Financial Statements *(c ed)*

4. Financing ecei able

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Bank acceptance bills	**96,155,523.75**	111,166,610.00
Total	**96,155,523.75**	111,166,610.00

Increase or decrease movements and fair value changes of nancing receivables during the period

✓ Applicable ☐ Not applicable

The Group uses the carrying amount of the bank acceptance bills as their fair value due to their short remaining terms and their carrying amount approximates to their fair value.

If provision for impairment of nancing receivables was made using the general approach of expected credit loss, please disclose the information on provision for impairment with reference to the disclosures of other receivables:

✓ Applicable ☐ Not applicable

No provision for asset impairment was made by the Group as the acceptors of the bank acceptance bills it holds are all nancial institutions with good credit standing.

Other information:

(1) Pledged nancing ecei able a a he end of he ea

Unit: RMB

I em	Pledged amo n a he end of he e iod
Bank acceptance bills	32,544,000.00
Total	32,544,000.00

V. Notes to the Consolidated Financial Statements *(c ed)*

4. Financing ecei able *(c ed)*

(2) Financing ecei able ha ha e been endo ed o di co n ed a he end of he ea and ha e no e e i ed a he balance hee da e

Unit: RMB

I em	Amo n de ecogni ed a a he end of he ea	Amount not derecognised as at the end of the year
Trade acceptance bills	**208,387,423.84**	—
Total	**208,387,423.84**	—

5. Loan and ad ance

Unit: RMB

I em	Balance a he end of he ea	Balance at the beginning of the year
Loans and advances, net	**17,046,915.97**	38,561,702.67
Total	**17,046,915.97**	38,561,702.67

(1) B eakdo n of loan and ad ance

Unit: RMB

I em	Balance a he end of he ea	Balance at the beginning of the year
Loans and advances	**47,925,154.08**	62,882,698.08
Less: Loss allowances for loans	**30,878,238.11**	24,320,995.41
Loans and advances, net	**17,046,915.97**	38,561,702.67

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V. Notes to the Consolidated Financial Statements *(c ed)*

5. Loan and ad ance *(c ed)*

(2) Loan and ad ance b g a an ee

Unit: RMB

Loan e	Balance a he end of he ea	Balance at the beginning of the year
Pledged loans	**5,340,000.00**	12,213,436.00
Secured loans	**3,844,593.19**	6,539,234.63
Guaranteed loans	**7,862,322.78**	19,809,032.04
Total	**17,046,915.97**	38,561,702.67

(3) Lo allo ance fo loan and ad ance

As at 31 December 2019, the Group had overdue loans of RMB47,925,154.08. The pro le of the Group's loans based on their securities and guarantees and status using the expected credit loss model was as follows:

Unit: RMB

O e d e Amo n	Amo n	Pe cen age o o al amo n of loan (%)	Balance of lo allo ance fo loan a a he end of he ea
>360 days	47,925,154.08	100.00	30,878,238.11
180–360 days	—	—	—
90–180 days	—	—	—
<90 days	—	—	—
Total	47,925,154.08	100.00	30,878,238.11

V. Notes to the Consolidated Financial Statements *(c ed)*

5. Loan and ad ance *(c ed)*

(4) Loan and ad ance b bo o e e

Unit: RMB

	A a he end of he ea				
	Book balance		Lo allo ance fo loan		
T e	Amo n	Pe cen age (%)	Amo n	Pe cen age (%)	Ne amo n of loan
Corporate loans	**45,100,154.08**	**94.11**	**29,145,238.11**	**64.62**	**15,954,915.97**
Personal loans	**2,825,000.00**	**5.89**	**1,733,000.00**	**61.35**	**1,092,000.00**
Total	**47,925,154.08**	**100.00**	**30,878,238.11**		**17,046,915.97**

	As at the beginning of the year				
	Book balance		Loss allowance for loans		
Type	Amount	Percentage (%)	Amount	Percentage (%)	Net amount of loans
Corporate loans	56,846,698.08	90.40	23,000,535.41	40.46	33,846,162.67
Personal loans	6,036,000.00	9.60	1,320,460.00	21.88	4,715,540.00
Total	62,882,698.08	100.00	24,320,995.41	—	38,561,702.67

(5) P o i ion, eco e and e e al of o i ion fo im ai men of loan and ad ance fo he ea

Unit: RMB

		Mo emen d ing he ea			
T e	Balance a he beginning of he e iod	P o i ion o e e al	Reco e	Off e	Balance a he end of he e iod
Provisions for impairment of loans and advances	24,320,995.41	7,256,011.73	—	698,769.03	30,878,238.11
Total	24,320,995.41	7,256,011.73	—	698,769.03	30,878,238.11

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V. Notes to the Consolidated Financial Statements *(c ed)*

6. P e a men

(1) P e en a ion of e a men b age

Unit: RMB

	Balance a he end of he e iod		Balance at the beginning of the period	
Age	**Amo n**	**Pe cen age**	Amount	Percentage
Within 1 year	**36,184,175.19**	**87.86%**	23,159,864.28	74.76%
1 to 2 years	**520,257.50**	**1.26%**	2,883,517.20	9.31%
2 to 3 years	**15,091.24**	**0.04%**	4,924,170.11	15.90%
Over 3 years	**4,464,940.52**	**10.84%**	10,683.61	0.03%
Total	**41,184,464.45**		30,978,235.20	—

Notes to reasons of signi□cant prepayments over 1 year and not settled in time:

As at the end of the year, the Group had no signi□cant prepayments aged over one year.

(2) De ail of he o K e ending balance of e a men cla iked acco ding o he a ee

Unit: RMB

Name of en i	**Balance a he end of he ea**	**Age**	**Pe cen age o o al balance of a men a he end of he ea (%)**
Entity I	9,562,408.02	Within 1 year	23.22
Entity II	6,667,654.43	Within 1 year	16.19
Entity III	4,772,804.66	Within 1 year	11.59
Entity IV	4,290,498.91	Over 3 years	10.42
Entity V	3,566,562.74	Within 1 year	8.66
Total	28,859,928.76	—	70.08

V. Notes to the Consolidated Financial Statements *(c ed)*

7. O he ecei able

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Interests receivable	**2,308,030.91**	2,710,659.25
Other receivables	**26,981,195.10**	44,987,044.41
Total	**29,289,226.01**	47,697,703.66

(1) In e e ecei able

1) Ca eg f e e ece ab e

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Interests on deposits and security deposits	**2,308,030.91**	2,710,659.25
Total	**2,308,030.91**	2,710,659.25

2) S g ca e d e e e

The above interests of the Group were not overdue.

3) P f bad deb

☐ Applicable ✓ Not applicable

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V. Notes to the Consolidated Financial Statements *(c ed)*

7. O he ecei able *(c ed)*

(2) O he ecei able

1) O e ece ab e b , a e a e

Unit: RMB

Pa men na e	Book balance a he end of he e iod	Book balance at the beginning of the period
Staff turnover loans	**1,293,754.00**	1,120,000.00
Deposits/caution money	**3,589,758.00**	1,981,819.00
Amounts due from administrative entities	**26,000,341.48**	42,059,310.85
Other amounts due from individuals		28,032.00
Other amounts due from entities	**1,677,120.82**	38,991,748.56
Less: Provision for bad debts of other receivables	**(5,579,779.20)**	(39,193,866.00)
Total	**26,981,195.10**	44,987,044.41

2) P f bad deb

Unit: RMB

	S age 1	S age 2	S age 3
	S age 1		
P o i ion fo bad deb			

V. Notes to the Consolidated Financial Statements *(c ed)*

7. O he ecei able *(c ed)*

(2) O he ecei able *(c ed)*

2) P f bad deb (c ed)

Disclosure by age

Unit: RMB

Age	Balance a he end of he e iod
1 year (inclusive)	8,187,932.01
1 to 2 years	794,218.46
2 to 3 years	67,882.35
Over 3 years	23,510,941.48
3 to 4 years	516,622.38
4 to 5 years	1,189,634.72
Over 5 years	21,804,684.38
Total	32,560,974.30

3) P , ec e e a f, f bad deb f e, e d

Provisions for bad debts for the period:

Unit: RMB

T e	Balance a he beginning of he e iod	Mo emen d ing he e iod			Balance a he end of he e iod
		P o i ion	Reco e o e e al	W i e-off	
Provisions for bad debts of other receivables	39,193,866.00	2,376,261.95	—	35,990,348.75	5,579,779.20
Total	39,193,866.00	2,376,261.95	—	35,990,348.75	5,579,779.20

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V. Notes to the Consolidated Financial Statements *(c ed)*

7. O he ecei able *(c ed)*

(2) O he ecei able *(c ed)*

4) O e ece ab e e ff d g e, e d

Unit: RMB

I em	W i e-off amo n
Other receivables	35,990,348.75

Signi□cant write-off of other receivables:

Unit: RMB

Name of en i	Na e of o he ecei able	W i e-off amo n	Rea on fo i e-off	P oced e fo i e-off	Whe he he amo n a inc ed f om connec ed an ac ion
JESORO OIL LTD	Current amounts	35,865,277.50	Deregistration of JESORO OIL LTD	Considered and passed by the second special meeting of the sixth session of board of directors of the Company	No
Total	—	35,865,277.50	—	—	—

Description of write-off of other receivables:

The Company has fully made bad debt provision for the other receivables as at the end of 2018.

Notes to the Financial Statements

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V. Notes to the Consolidated Financial Statements *(c ed)*

7. O he ecei able *(c ed)*

(2) O he ecei able *(c ed)*

8) A f a e a d ab e f c e ece ab e a e bee a fe ed b e e c e (c ed)

Borrowings due from employees:

Unit: RMB

Name of bo o e	Zhang Sho Y an	Li Ch n Jing	Zhang Zeng Xiang	Hao Liang	O he em lo ee
Purpose of borrowing	Business working capital	Business working capital	Business working capital	Prepayment of Delivery costs	Business working capital
Amount					
— Current year (RMB)	250,000.00	170,000.00	—	—	873,754.00
— Prior year (RMB)	—	—	250,000.00	200,000.00	670,000.00
Amount of bad debt provision (RMB)	—	—	—	—	—

8. In en o ie

Whether the new standard for revenue has been adopted

✓ Yes ☐ No

(1) Ca ego of in en o ie

Unit: RMB

	Balance a he end of he e iod			Balance at the beginning of the period		
I em	Book balance	P o i ion fo im ai men of in en o ie o o i ion fo de al a ion of co of con ac e fo mance	Book al e	Book balance	Provision for impairment of inventories or provision for devaluation of costs of contract performance	Book value
Raw materials	353,582,703.30	6,430,777.40	347,151,925.90	444,194,514.71	6,495,298.33	437,699,216.38
Work in progress	166,028,851.73	4,569,606.68	161,459,245.05	211,490,453.03	3,397,807.05	208,092,645.98
Goods in stock	426,713,762.34	10,725,275.46	415,988,486.88	395,379,028.81	5,043,310.44	390,335,718.37
Sub-contracting materials	10,309,440.99	1,778.24	10,307,662.75	6,635,709.77	2,033.49	6,633,676.28
Total	956,634,758.36	21,727,437.78	934,907,320.58	1,057,699,706.32	14,938,449.31	1,042,761,257.01

V. Notes to the Consolidated Financial Statements *(c ed)*

8. In en o ie *(c ed)*

(2) P o i ion fo im ai men of in en o ie o o i ion fo de al a ion of co of con ac e fo mance

Unit: RMB

I em	Balance a he beginning he e iod	Inc ea e in he c en e iod		Dec ea e in he c en e iod		Balance a he end of he e iod
		P o i ion	O he	Re e al o i e-off	O he	
Raw materials	6,495,298.33	2,068,259.58				

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V. Notes to the Consolidated Financial Statements *(c ed)*

8. In en o ie *(c ed)*

(4) Info ma ion on he amo i ed amo n of co of con ac e fo mance fo he e iod

Nil

9. O he c en a e

Whether the new standard for revenue has been adopted

✓ Yes ☐ No

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Deductible input tax	**34,046,039.33**	36,490,388.84
Prepaid income tax	**1,160,302.64**	2,565,306.96
Prepaid other taxes		846,809.61
Bank nancial products		104,900,000.00
Total	**35,206,341.97**	144,802,505.41

10. Long- e m e i in e men

Unit: RMB

		Mo emen d ing he e iod									
In e ee	Balance a he beginning of he e iod (Book al e)	Inc ea e in in e men	Dec ea e in in e men	Gain o lo on in e men e i me hod	Adj men o o he com ehen i e income	O he change in e i	Ca h di idend o ok declared	P o i ion fo im ai men	O he	Balance a he end of he e iod (Book al e)	Balance of o i ion fo im ai men a he end of he e iod
I. Joint Venture											
II. Associate											
Karamay Yalong Petroleum Machinery Co., Ltd	2,663,518.90	–	–	(106,457.89)	–	–	–	–	–	2,557,061.01	–
Sub-total	2,663,518.90	–	–	(106,457.89)	–	–	–	–	–	2,557,061.01	–
Total	2,663,518.90	–	–	(106,457.89)	–	–	–	–	–	2,557,061.01	–

Other description

1 Ja a 2019 31 Dece be 2019
(U e d ca ed, a g e a e a ed RMB)

V. Notes to the Consolidated Financial Statements *(c ed)*

11. Fi ed A e

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Fixed assets	**2,726,157,716.13**	2,915,815,731.99
Total	**2,726,157,716.13**	2,915,815,731.99

(1) De ail of ed a e

Unit: RMB

I em	B ilding	Machine and e i men	Elec onic and o he	Vehicle	To al
I. O iginal book al e:					
1. Balance at the beginning of the period	1,088,683,267.33	3,303,477,743.47	124,049,033.81	17,386,536.76	4,533,596,581.37
2. Additions during the period	7,309,975.68	34,361,666.62	3,863,175.79	1,701,752.24	47,236,570.33
(1) Purchase	104,361.16	26,229,925.95	3,798,103.44	1,701,752.24	31,834,142.79
(2) Transferred from construction in progress	7,205,614.52	8,131,740.67	65,072.35	—	15,402,427.54
(3) Additions from business combinations	—	—	—	—	—
3. Reductions during the period	—	21,075,707.63	4,784,469.14	4,669,456.73	30,529,633.50
(1) Disposal or retirement	—	11,212,668.03	4,784,469.14	4,669,456.73	20,666,593.90
(2) Other reductions	—	9,863,039.60	—	—	9,863,039.60
4. Balance at the end of the period	1,095,993,243.01	3,316,763,702.46	123,127,740.46	14,418,832.27	4,550,303,518.20
II. Acc m la ed de ecia ion					
1. Balance at the beginning of the period	268,497,550.15	1,180,667,663.42	90,402,621.08	9,161,897cia480. 5	1,180,667,663.42 90,497,550.

eductions

1 Ja a 2019 31 Dece be 2019
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V. Notes to the Consolidated Financial Statements *(c ed)*

11. Fi ed A e *(c ed)*

(2) Fi ed a e i h ending o ce ica e of o ne hi

Unit: RMB

I em	Book al e	Rea on fo ending o ce ica e of o ne hi
140 rolled tube main workshop	6,961,234.82	Application in process
New dormitory building and staff dining hall in Weihai	3,990,346.70	Application in process
Building No. 7 of Molong Garden	6,933,130.44	Application in process
Logistics Park Plant	7,381,755.76	Application in process
Workshop plant, of□ce building and staff canteen of Maolong New Materials	252,594,462.66	Not yet applied
Total	277,860,930.38	—

Other descriptions

The Group had no temporarily idle □xed assets. The Group had no □xed assets that were leased in under □nance leases or leased out under operating leases.

12. Con c ion in P og e

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Construction in progress	**55,034,853.27**	35,871,296.86
Total	**55,034,853.27**	35,871,296.86

V. Notes to the Consolidated Financial Statements *(c ed)*

12. Con c ion in P og e *(c ed)*

(1) De ail of Con c ion in P og e

Unit: RMB

	Balance a he end of he e iod			Balance at the beginning of the period		
I em	**Book balance**	**P o i ion fo im ai men**	**Book al e**	Book balance	Provision for impairment	Book value
Employee technical development training centre	**20,796,671.64**		**20,796,671.64**	22,296,180.78	—	22,296,180.78
Furnace rehabilitation and improvement and construction of new auxiliary and miscellaneous projects	**16,845,718.09**		**16,845,718.09**	8,492,694.99	—	8,492,694.99
VD vacuum degassing device	**16,745,602.57**		**16,745,602.57**	—	—	—
Other miscellaneous projects	**646,860.97**		**646,860.97**	5,082,421.09	—	5,082,421.09
Total	**55,034,853.27**		**55,034,853.27**	35,871,296.86	—	35,871,296.86

(2) Change of majo Con c ion in og e d ing he e iod

Unit: RMB

I em	B dge amo n	Balance a he beginning of he e iod	Inc ea e d ing he e iod	T an fe o ed a e d ing he e iod	O he ed c ion d ing he e iod	Balance a he end of he e iod	Ra io of acc m la ed con ib ion o he con c ion o b dge	Con c ion e og e	Acc m la ed in e e ca i ali ed	Incl ding: Amo n of in e e ca i ali ed d ing he e iod	Ca i ali a ion a e of in e e fo he e iod	So ce of f nd
Employee technical development training centre	26,000,000.00	22,296,180.78	665,264.70	2,164,773.84	–	20,796,671.64	88.31%	95.00%	–	–	–	Other
Furnace rehabilitation and improvement and construction of new auxiliary and miscellaneous projects	50,000,000.00	8,492,694.99	15,790,495.55	7,437,472.45	–	16,845,718.09	103.49%	90.00%	–	–	–	Other
VD vacuum degassing device	29,160,000.00	–	16,745,602.57	–	–	16,745,602.57	57.43%	65.00%	–	–	–	Other
Total	105,160,000.00	30,788,875.77	33,201,362.82	9,602,246.29	–	54,387,992.30	–	–	–	–	–	–

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V. Notes to the Consolidated Financial Statements *(c ed)*

12. Con c ion in P og e *(c ed)*

(3) De ail of o i ion fo im ai men of con c ion in og e d ing he e iod

There is no indication of impairment at the end of the year, therefore no provision for impairment is made for construction in progress.

(4) O he de c i ion

As at the end of the year, there was no restriction on the right to own or use construction in progress due to pledge, guarantee or any other reason.

13. In angible a e

(1) De ail of In angible a e

Unit: RMB

I em	Land e igh	Pa en igh	Non- a en echnolog	Sof a e	To al
I. O iginal book al e					
1. Balance at the beginning of the period	495,820,094.64	2,886,248.19	387,630,789.17	770,036.72	887,107,168.72
2. Additions during the period	17,333.92	—	10,864,448.29	—	10,881,782.21
(1) Acquisition	17,333.92	—	—	—	17,333.92
(2) Internal research and development	—	—	10,864,448.29	—	10,864,448.29
(3) Additions from business combinations	—	—	—	—	—
3. Reductions during the period	582,165.00	—	—	—	582,165.00
(1) Disposal	—	—	—	—	—
(2) Other reductions	582,165.00	—	—	—	582,165.00
4. Balance at the end of the period	495,255,263.56	2,886,248.19	398,495,237.46	770,036.72	897,406,785.93
II. Acc m la ed amo i a ion					
1. Balance at the beginning of the period	64,626,931.63	2,627,367.25	333,067,613.54	770,036.72	401,091,949.14
2. Additions during the period	11,494,409.85	146,572.57	7,481,930.91	—	19,122,913.33
(1) Provision	11,494,409.85	146,572.57	7,481,930.91	—	19,122,913.33
3. Reductions during the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	76,121,341.48	2,773,939.82	340,549,544.45	770,036.72	420,214,862.47
III. P o i ion fo Im ai men					
1. Balance at the beginning of the period	—	—	33,968,375.45	—	33,968,375.45
2. Additions during the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions during the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	—	—	33,968,375.45	—	33,968,375.45
IV. Book al e					
1. Book value at the end of the period	419,133,922.08	112,308.37	23,977,317.56	—	443,223,548.01
2. Book value at the beginning of the period	431,193,163.01	258,880.94	20,594,800.18	—	452,046,844.13

The internally generated intangible assets accounted for 5.41% of the balance of intangible assets as at the end of the period.

V. Notes to the Consolidated Financial Statements *(c ed)*

13. In angible a e *(c ed)*

(2) De ail of land e igh i ho com le e o e ce ica e

Nil

14. De elo men e endi e

Unit: RMB

		Inc ea e d ing he e iod		Dec ea e d ing he e iod		
I em	**Balance a he beginning of he e iod**	**In e nal de elo men e endi e**	**O he**	**Recogni ed a in angible a e**	**T an fe o o lo fo he c en e iod**	**Balance a he end of he e iod**
Project I	—	5,777,019.43	—	—	5,777,019.43	—
Project II	—	8,271,050.05	—	—	8,271,050.05	—
Project III	—	4,697,048.28	—	—	4,697,048.28	—
Project IV	—	5,570,485.70	—	5,570,485.70	—	—
Project V	—	5,293,962.59	—	5,293,962.59	—	—
Project VI	—	5,822,532.70	—	—	5,822,532.70	—
Project VII	—	5,636,287.04	—	—	5,636,287.04	—
Project VIII	—	8,386,187.03	—	—	8,386,187.03	—
Project IX	—	5,994,136.80	—	—	5,994,136.80	—
Project X	—	6,101,883.36	—	—	6,101,883.36	—
Total	—	61,550,592.98	—	10,864,448.29	50,686,144.69	—

Other description

Please refer to V.24 of this note for the division in the phase of research and development expenditures and the phase of development, the time and basis of capitalization of development phase.

V. Notes to the Consolidated Financial Statements *(c ed)*

15. Good ill *(c ed)*

(2) P o i ion fo Im ai men of good ill *(c ed)*

I f a e a e g c g d be g a d g , g f a e g ,

The goodwill of the Group was generated from the acquisition of equity interests of Maolong New Materials not under common control by the Company in 2007. The acquisition constituted a business combination not under common control. At the time of acquisition, Maolong New Materials held 95% equity interest of Weihai Baolong and also held 75% equity interest of Molong Electro-Mechanical, which in turn held 5% equity interest of Weihai Baolong. As the three newly acquired companies are independently operated and commenced business independently, three asset groups were developed upon acquisition. The Company allocated goodwill to the three asset groups in proportion to their fair value at the time of acquisition. The three asset groups of the Company have remained consistent since the acquisition.

Process of goodwill impairment test, key parameters (such as forecast growth rate, steady growth rate, pro□t margin, discount rate, forecast period, etc. in estimating the present value of future cashflows) and recognition of goodwill impairment are illustrated as follows:

The Group performed the impairment test on goodwill as stated in Note IV.25.

The Group has performed impairment test. Carrying amount of goodwill has been allocation to three relevant asset groups that operate casting-forging business, representing three cash generating units. The recoverable amount of each cash-generating unit is and its expected future cash flow. The recoverable amount of asset groups is recognized based on a valuation carried out on 31 December 2019 (being evaluation base date) by a professional appraisal association engaged by the Group.

The main assumptions in the asset group that use the present value of estimated future cash □ows as their recoverable amount are summarized as follows:

For the purposes of impairment testing for asset group, the projection is based on □nancial budgets of the most recent □ve years approved by management while the future cash □ows for the □fth year onwards is projected based on zero growth rate. The present value of future cash flows of the asset groups were estimated at a discount rate of 13.75% or 13.04% respectively. Other key assumption for the future cash □ows is the estimated gross margin, such estimation is based on the past performance of cash generating unit for relevant asset group and Management's expectations for the market development.

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V. Notes to the Consolidated Financial Statements *(c ed)*

16. Defe ed income a a e /defe ed income a liabili ie

(1) Defe ed income a a e no e elimina ed

Unit: RMB

	Balance a he end of he e iod		Balance at the beginning of the period	
I em	**Ded c ible em o a diffe ence**	**Defe ed income a a e**	Deductible temporary difference	Deferred income tax assets
Unrealised pro ts arisen from intragroup transactions	**9,393,965.60**	**2,348,491.40**	10,113,849.13	2,528,462.27
Bills receivables	**2,602,376.56**	**390,356.49**	—	—
Accounts receivable	**127,816,000.16**	**19,172,400.02**	122,999,984.54	18,449,997.68
Other receivables	**2,869,997.38**	**430,499.61**	37,173,029.30	5,575,954.40
Allowance for impairment of inventories	**18,060,869.10**	**2,709,130.37**	11,497,734.54	1,724,660.18
Difference in amortisation of intangible assets	**95,472,670.50**	**14,320,900.58**	113,735,759.42	17,060,363.92
Estimated liabilities	**5,734,176.25**	**860,126.44**	12,780,330.57	1,917,049.59
Total	**261,950,055.55**	**40,231,904.91**	308,300,687.50	47,256,488.04

(2) Defe ed a liabili ie no e elimina ed

Unit: RMB

	Balance a he end of he e iod		Balance at the beginning of the period	
I em	**Ta able em o a diffe ence**	**Defe ed income a liabili ie**	Taxable temporary difference	Deferred income tax liabilities
Long-term equity investments	**15,237.52**	**3,809.38**	15,237.51	3,809.38
Fixed assets			838,979.53	209,744.88
Intangible assets	**23,001,960.00**	**5,750,490.00**	23,651,782.82	5,912,945.70
Total	**23,017,197.52**	**5,754,299.38**	24,505,999.86	6,126,499.96

V. Notes to the Consolidated Financial Statements *(c ed)*

16. Defe ed income a a e /defe ed income a liabili ie *(c ed)*

(3) Defe ed income a a e o liabili ie e en ed on a ne ba i af e off e ing

Unit: RMB

I em	Off e ing be een defe ed income a a e and liabili ie a he end of he e iod	Balance of defe ed income a a e o liabili ie af e off e ing a he end of he e iod	Off e ing be een defe ed income a a e and liabili ie a he beginning of he e iod	Balance of defe ed income a a e o liabili ie af e off e ing a he beginning of he e iod
Deferred income tax assets	—	40,231,904.91	—	47,256,488.04
Deferred income tax liabilities	—	5,754,299.38	—	6,126,499.96

(4) B eakdo n of n ecogni ed defe ed income a a e

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Deductible temporary differences	**97,006,220.12**	72,491,916.55
Deductible losses	**1,052,554,995.02**	770,932,603.43
Total	**1,149,561,215.14**	843,424,519.98

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V. Notes to the Consolidated Financial Statements *(c ed)*

16. Defe ed income a a e /defe ed income a liabili ie *(c ed)*

(5) Ded c ible lo e of n ecogni ed defe ed income a a e ill be e i ed b he ea a ecik ed belo

Unit: RMB

Yea	Amo n a he end of he e iod	Amount at the beginning of the period	Rema k
2019		41,577,966.99	—
2020	**135,433,959.60**	135,433,959.60	—
2021	**159,003,364.18**	158,888,578.18	—
2022	**176,061,927.43**	175,804,216.53	—
2023	**52,476,863.76**	52,754,082.69	—
2024	**223,281,561.26**	—	—
2025		—	—
2026	**230,288,589.07**	206,473,799.44	—
2029	**76,008,729.72**	—	—
Total	**1,052,554,995.02**	770,932,603.43	—

17. O he non-c en a e

Whether the new standard for revenue has been adopted

✓ Yes ☐ No

Unit: RMB

	Balance a he end of he e iod			Balance at the beginning of the period		
I em	Book balance	P o i ion fo im ai men	Book al e	Book balance	Provision for impairment	Book value
Prepaid land payments	**3,900,000.00**		**3,900,000.00**	3,900,000.00	—	3,900,000.00
Prepayments for equipment	**5,721,036.29**		**5,721,036.29**	9,944,015.27	—	9,944,015.27
Total	**9,621,036.29**		**9,621,036.29**	13,844,015.27	—	13,844,015.27

V. Notes to the Consolidated Financial Statements *(c ed)*

18. Sho - e m bo o ing

(1) Ca ego of ho - e m bo o ing

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Pledged borrowings	**11,229,883.37**	216,896,960.75
Guaranteed borrowings	**386,800,000.02**	617,000,000.00
Credit borrowings	**1,367,881,000.00**	920,021,600.02
Bills discounted and borrowings for letters of credit	**163,600,000.00**	637,000,000.00
Total	**1,929,510,883.39**	2,390,918,560.77

Notes for classi□cation of short-term borrowings:

Details of the interest rate: In 2019, the weighted average annual interest rate for the Group was 4.789% (2018: 6.059%).

(2) De ail of o anding o e d e ho - e m bo o ing

The outstanding overdue short-term borrowing as at the end of the period amounted to RMB0.00.

19. Bill a able

Unit: RMB

T e	Balance a he end of he e iod	Balance at the beginning of the period
Trade acceptance bills	**281,588,603.88**	266,019,348.18
Letter of credit payables		12,882,699.61
Total	**281,588,603.88**	278,902,047.79

At the end of the period, the Group had outstanding overdue bills payable of nil.

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V. Notes to the Consolidated Financial Statements *(c ed)*

20. Acco n ecei able

(1) P e en a ion of acco n a able

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Amounts due to suppliers	**924,020,613.80**	821,162,695.81
Total	**924,020,613.80**	821,162,695.81

(2) Signi can acco n a able i h aging o e one ea

Unit: RMB

I em	Balance a he end of he e iod	Rea on fo o anding o ca ing fo a d
Entity 1	**13,112,855.17**	Settlement conditions not reached
Entity 2	**6,666,161.96**	Settlement conditions not reached
Entity 3	**4,593,819.70**	Settlement conditions not reached
Entity 4	**4,440,218.65**	Settlement conditions not reached
Entity 5	**3,537,794.87**	Settlement conditions not reached
Total	**32,350,850.35**	—

V. Notes to the Consolidated Financial Statements *(c ed)*

20. Acco n ecei able *(c ed)*

(2) Signi can acco n a able i h aging o e one ea *(c ed)*

Other description:

The aging analysis of accounts payable (including amounts due from related parties) based on transaction dates is as follows:

Unit: RMB

I em	**Amo n a he end of he ea**	Amount at the beginning of the year
Within 2 months	**463,282,439.13**	477,281,725.26
2–3 months	**102,347,363.72**	67,234,067.73
3–4 months	**51,928,009.62**	33,004,652.49
4 months — 1year	**150,409,259.97**	102,116,941.78
1–2 years	**57,797,898.87**	56,642,182.97
2–3 years	**33,184,637.97**	37,055,057.30
Over 3 years	**65,071,004.52**	47,828,068.28
To al	**924,020,613.80**	821,162,695.81

21. Con ac liabili ie

Unit: RMB

I em	**Balance a he end of he e iod**	Balance at the beginning of the period
Receipts in advance	**32,463,654.22**	57,364,400.72
Total	**32,463,654.22**	57,364,400.72

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V. Notes to the Consolidated Financial Statements *(c ed)*

22. Sala ie a able

(1) P e en a ion of ala ie a able

Unit: RMB

I em	Balance a he beginning of he e iod	Inc ea e d ing he e iod	Dec ea e d ing he e iod	Balance a he end of he e iod
I. Short-term salaries	57,100,793.80	254,086,774.23	253,910,625.93	57,276,942.10
II. Post-employment bene□ts — de□ned contribution plans	—	20,884,524.34	20,884,524.34	—
TotalBalanc.52]TJ-.315 -1.529 Td (the period)Tj 6.32 1.529 Td,971,293.572 1.529 Td,ala,150.2742.10				

V. Notes to the Consolidated Financial Statements *(c ed)*

22. Sala ie a able *(c ed)*

(3) P e en a ion of de ned con ib ion lan

Unit: RMB

I em	Balance a he beginning of he e iod	Inc ea e d ing he e iod	Dec ea e d ing he e iod	Balance a he end of he e iod
1. Basic pension insurance	—	20,041,633.10	20,041,633.10	—
2. Unemployment insurance	—	842,891.24	842,891.24	—
Total	—	20,884,524.34	20,884,524.34	—

Other descriptions:

Salaries payables of the Group as at the end of the year included accrued wages, bonuses and allowances of RMB42,149,843.83, which were expected to be paid in the rst half of 2020.

As at 31 December 2019, contributions to all planned pension insurances and unemployment insurances of the Company have made.

23. Ta e Pa able

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Value-added tax	**2,230,290.05**	61,342,130.14
Enterprise income tax	**6,797,851.33**	8,926,968.92
Individuh寇顥贐焚刺佐始	**6,797,851.33**	

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V. Notes to the Consolidated Financial Statements *(c ed)*

24. O he a able

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Interests payable	**6,389,751.57**	8,691,627.11
Other payables	**55,033,779.68**	42,653,126.57
Total	**61,423,531.25**	51,344,753.68

(1) In e e Pa able

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Interests on long-term borrowings with principal repayable when due and interest payable by installments	**555,555.56**	1,213,175.23
Interests payable for short-term borrowings	**2,270,088.67**	5,017,797.19
Interests on long-term borrowings with principal repayable and interest payable by installments	**1,283,106.47**	2,460,654.69
Interests on long-term payables with principal repayable and interest payable by installments	**2,281,000.87**	—
Total	**6,389,751.57**	8,691,627.11

Details of signi□cant overdue and unpaid interests:

As at 31 December 2019, the Group had no overdue unpaid interest.

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(U e d ca ed, a g e a e a ed RMB)

V. Notes to the Consolidated Financial Statements *(c ed)*

24. O he a able *(c ed)*

(2) O he a able

1) P e e a f e, a ab e b a e

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Accrued energy charges	**35,876,548.51**	22,661,073.90
Deposits	**9,651,252.85**	9,675,864.78
Others	**9,505,978.32**	10,316,187.89
Total	**55,033,779.68**	42,653,126.57

2) S g ca e, a ab e ag g e 1 ea

As at 31 December 2019, the Group had no signi□cant other payables aging over 1 year.

25. Non-c en liabili ie d e i hin one ea

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Long-term borrowings due within one year	**425,044,064.29**	308,994,908.08
Long-term payables due within one year	**57,592,842.49**	—
Total	**482,636,906.78**	308,994,908.08

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V. Notes to the Consolidated Financial Statements *(c ed)*

26. O he c en liabili ie

Whether the new standard for revenue has been adopted

✓ Yes ☐ No

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Trade acceptance bills that have been endorsed but not yet matured	**87,557,572.20**	94,281,027.25
Total	**87,557,572.20**	94,281,027.25

27. Long- e m bo o ing

(1) Ca ego of long- e m bo o ing

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Pledged borrowings	**250,000,000.00**	250,000,000.00
Secured borrowings	**175,044,064.29**	485,213,958.98
Less: Amounts due within one year	**(425,044,064.29)**	(308,994,908.08)
Total		426,219,050.90

Information on the classi□cation of long-term borrowings:

Long-term borrowings due within one year have been reclassi□ed to "non-current liabilities due within one year". See note VII.25.

Other information, including interest rate intervals:

The interest rates of long-term borrowings of the Group for 2019 ranged between 8%–11%.

V. Notes to the Consolidated Financial Statements *(c ed)*

27. Long- e m bo o ing *(c ed)*

(1) Ca ego of long- e m bo o ing *(c ed)*

Pro le of maturity dates of long-term borrowings is as follows:

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
1 to 2 years	**0.00**	426,219,050.90
Total	**0.00**	426,219,050.90

28. Long- e m a able

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Long-term payables	**58,045,884.69**	—
Total	**58,045,884.69**	—

(1) P e en a ion of long- e m bo o ing b a men na e

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Leaseback nancing	**58,045,884.69**	—
Total	**58,045,884.69**	—

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V. Notes to the Consolidated Financial Statements *(c ed)*

28. Long- e m a able *(c ed)*

(1) P e en a ion of long- e m bo o ing b a men na e *(c ed)*

Other information:

The effective interest rates of long-term payables of the Group for 2019 was 10.90%.

Pro le of maturity dates of long-term payables:

Unit: RMB

I em	Amo n a he end of he ea	Amount at the beginning of the year
1–2 years	**54,116,154.13**	—
2–3 years	**3,929,730.56**	—
Total	**58,045,884.69**	—

29. E ima ed liabili ie

Whether the new standard for revenue has been adopted

✓ Yes ☐ No

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period	Ca e
Pending litigations	**5,734,176.25**	12,780,330.57	See note XIV.2 for details
Total	**5,734,176.25**	12,780,330.57	—

V. Notes to the Consolidated Financial Statements *(c ed)*

30. Defe ed income

Unit: RMB

I em	Balance a he beginning of he e iod	Inc ea e d ing he e iod	Dec ea e d ing he e iod	Balance a he end of he e iod	Ca e
Government grants	6,954,855.00	719,085.90	287,634.36	7,386,306.54	Asset-related government grants
Total	6,954,855.00	719,085.90	287,634.36	7,386,306.54	—

Items involving government grants:

Unit: RMB

Liabili i em	Balance a he beginning of he e iod	Amo n of ne g an d ing he e iod	Amo n incl ded in non-o e a ing income d ing he e iod	Amo n incl ded in o he d ing he income d ing he e iod	Amo n cha ged again co and e en e d ing he e iod	O he Change	Balance a he end of he e iod	A e - ela ed/ e en e- ela ed
Grants for ancillary infrastructure	6,954,855.00	—	—	—	—	—	6,954,855.00	Asset-related
Grants for defense basement construction	—	719,085.90	—	287,634.36	—	—	431,451.54	Asset-related
Total	6,954,855.00	719,085.90	—	287,634.36	—	—	7,386,306.54	—

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V. Notes to the Consolidated Financial Statements *(c ed)*

30. Defe ed income *(c ed)*

Other description:

According to Notice on Finance of Shouguang Molong Logistic Company Limited's Subsidy Funds for Infrastructure (Shangzhengfa [2016] No.3) issued by the People's government of Shangkou town, the Group received subsidy funds for infrastructure of RMB6,954,855.00 on 24 February 2016, and recognized the government grant as the government grant related to assets. The Group has not amortized yet during the period since the relevant infrastructure has not been completed.

According to the Request for return of preferential policy to the phase II project of Weihai Baolong Special Petroleum Materials Co., Ltd. (Gaozhengqingzi [2018] No. 42) issued by the People's Government of Gaocun Town, Weihai Baolong, a subsidiary of the Company, received a grant of RMB719,085.90 for the construction of defense basement on 25 February 2019. The company recognised such government grant as an asset-related government grant. The depreciation of the underlying assets for the year amounting RMB287,634.36 was charged to the pro□t or loss for the current period.

31. Sha e Ca i al

Unit: RMB

	Balance a he beginning of he e iod	Mo emen fo he e iod (inc ea e/dec ea e) (+,) I e of ne ha e	Bon i e	Con e ion of e e e in o ha e	O he	S b- o al	Balance a he end of he e iod
Total number of shares	797,848,400.00	—	—	—	—	—	797,848,400.00

32. Ca i al Re e e

Unit: RMB

I em	Balance a he beginning of he e iod	Inc ea e d ing he e iod	Dec ea e d ing he e iod	Balance a he end of he e iod
Capital premium (share capital premium)	849,481,990.92	—	—	849,481,990.92
Other capital reserves	13,687,167.50	—	—	13,687,167.50
Total	863,169,158.42	—	—	863,169,158.42

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V. Notes to the Consolidated Financial Statements *(c ed)*

33. O he com ehen i e income

Unit: RMB

		Amo n fo he e iod						
I em	Balance a he beginning of he e iod	Amo n income a he e iod	Le : T an fe of amo n e io l incl ded in o he com ehen i e income o o lo c	Le : T an fe of amo n e io l incl ded in o he com ehen i e income o o ea ning c	Le : Income a e en e	A ib able o he a en com an af e a	A ib able o mino i ha eholde af e a	Balance a he end of he e iod
I. Other comprehensive income that may not reclassi ed to pro t or loss	—	—	—	—	—	—	—	—
II. Other comprehensive income that will be reclassi ed to pro t or loss	(2,792,011.13)	(292,277.16)	—	—	—	(263,049.44)	(29,227.72)	(3,055,060.57)
Including: Exchange differences on translation of foreign nancial statements	(2,792,011.13)	(292,277.16)	—	—	—	(263,049.44)	(29,227.72)	(3,055,060.57)
Total other comprehensive income	(2,792,011.13)	(292,277.16)	—	—	—	(263,049.44)	(29,227.72)	(3,055,060.57)

34. S ecial Re e e

Unit: RMB

I em	Balance a he beginning of he e iod	Inc ea e d ing he e iod	Dec ea e d ing he e iod	Balance a he end of he e iod
Safety production fees	—	25,666,860.29	25,666,860.29	—
Total	—	25,666,860.29	25,666,860.29	—

V. Notes to the Consolidated Financial Statements *(c ed)*

37. Undi ib ed o

Unit: RMB

I em	C en e iod	Last period
Undistributed pro□t as at the end of prior period before adjustments	**98,100,580.11**	35,934,311.12
Total adjustments to undistributed pro□t at the beginning of the period (increase +, decrease —)		(19,243,085.65)
Undistributed pro□t at the beginning of the period after adjustments	**98,100,580.11**	16,691,225.47
Add: Net pro□t attributable to owners of the parent company for the period	**(196,309,267.90)**	92,476,375.01
Less: Appropriations to statutory surplus reserve		11,067,020.37
Undistributed pro□t at the end of the period	**(98,208,687.79)**	98,100,580.11

Adjustments breakdown of urplus reserve T1028811377 Tw/T1riod

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V. Notes to the Consolidated Financial Statements *(c ed)*

38. Mino i in e e

Equity of minority shareholders attributable to minority shareholders in each subsidiary

Unit: RMB

Name of b idia	Pe cen age of mino i ha eholding

V. Notes to the Consolidated Financial Statements *(c ed)*

39. O e a ing e en e and o e a ing co *(c ed)*

Information on transaction price allocated to remaining performance obligations:

The corresponding revenue from performance obligations that have been contracted but not yet performed or completed amounted to RMB537,000,000.00 as at the end of the reporting period, which was expected to be recognised as revenue in 2020.

Details of contract revenue

Unit: RMB

Con ac ca ego	Pi e od c	Th ee kind of m ing ni	Pe ole m machine a	T be blank	O he	To al
Type of goods						
Including: Pipe products	3,456,742,513.39	—	—	—	—	3,456,742,513.39
Three kinds of pumping units	—	43,755,412.12	—	—	—	43,755,412.12
Petroleum machinery parts	—	—	34,536,314.66	—	—	34,536,314.66
Tube blanks	—	—	—	699,060,843.61	—	699,060,843.61
Others	—	—	—	—	154,809,132.13	154,809,132.13
By business location						
Including: China	2,829,024,078.70	42,066,844.47	—	699,060,843.61	154,570,616.57	3,724,722,383.35
Outside China	627,718,434.69	1,688,567.65	34,536,314.66	—	238,515.56	664,181,832.56
Type of contracts						
Including: Revenue recognised at a point in time	3,456,742,513.39	43,755,412.12	34,536,314.66	699,060,843.61	154,809,132.13	4,388,904,215,91
Total	3,456,742,513.39	43,755,412.12	34,536,314.66	699,060,843.61	154,809,132.13	4,388,904,215,91

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V. Notes to the Consolidated Financial Statements *(c ed)*

40. Ta e and cha ge

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Urban maintenances and construction tax	**7,293,848.12**	11,872,765.79
Educational surcharges	**5,209,746.09**	8,480,546.94
Property tax	**4,963,595.80**	4,743,148.36
Land use tax	**5,106,999.76**	9,652,721.02
Local water conservancy construction funds	**521,022.68**	871,777.80
Other taxes	**2,159,214.21**	3,821,891.23
Total	**25,254,426.66**	39,442,851.14

41. Selling e en e

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Delivery fees	**67,775,409.06**	97,343,615.79
Staff remunerations	**4,166,114.60**	4,317,227.70
Agency fees	**1,695,829.67**	1,564,818.61
Depreciation charges	**166,483.04**	1,152,558.09
Travelling expenses	**878,574.05**	1,017,333.78
Entertainment expenses	**4,217,186.01**	3,895,549.54
Transportation fees	**312,550.12**	446,945.86
Office expenses	**796,505.05**	203,187.03
Others	**4,331,797.93**	4,028,478.20
Total	**84,340,449.53**	113,969,714.60

V. Notes to the Consolidated Financial Statements *(c ed)*

42. Admini a i e e en e

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Amortisation of intangible assets	**11,640,982.42**	30,859,832.44
Depreciation charges	**47,815,691.20**	27,206,886.03
Staff remunerations	**49,972,461.91**	38,346,198.95
Machinery material consumables	**22,439,701.29**	19,850,968.92
Entertainment expenses	**3,343,149.06**	2,798,376.54
Board of directors' expenses	**2,996,770.36**	3,252,264.08
Utilities	**22,025,055.76**	8,329,969.17
Agency fees	**3,433,254.08**	7,292,244.15
Repair charges	**11,054,972.70**	28,396,646.03
Others	**18,883,978.17**	12,488,847.61
Total	**193,606,016.95**	178,822,233.92

Other descriptions:

Auditors' remuneration (excluding value added tax) included in the intermediate fees under the administrative expenses of the Group is speci□ed below:

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Auditors' remuneration	**1,273,584.87**	1,580,188.64
— Audit service fees	**1,273,584.87**	1,132,075.44
— Others		448,113.20
Total	**1,273,584.87**	1,580,188.64

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V. Notes to the Consolidated Financial Statements *(c ed)*

43. Re ea ch and de elo men e endi e

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Research and development of new products	**56,348,398.99**	71,979,056.24
Amortisation of non-patent technology in previous years	**7,481,930.91**	—
Total	**63,830,329.90**	71,979,056.24

Other descriptions:

Details of the provision for research and development expenses for the year are provided in note VII.14.

44. Finance e en e

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Interest expenses	**159,146,751.07**	203,251,721.32
Less: Interest income	**8,791,007.22**	7,381,164.96
Add: Foreign exchange losses	**(10,538,743.57)**	294,729.66
Other expenses	**6,509,178.00**	7,942,049.79
Total	**146,326,178.28**	204,107,335.81

V. Notes to the Consolidated Financial Statements *(c ed)*

45. O he income

Unit: RMB

So ce of o he income	Amo n fo he e iod	Amount for the last period
Subsidies and grants for recycling resource enterprises	**11,703,891.00**	28,730,384.37
Stability subsidies and social insurance subsidies	**563,748.95**	722,535.56
Bonuses for technology upgrade and energy conversion	**1,108,200.00**	—
Grants for defense basement construction	**287,634.36**	—
Special funds for external trade development	**123,700.00**	—
Others	**245,120.00**	4,000.00
Total	**14,032,294.31**	29,456,919.93

46. In e men income

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Gain from long-term equity investments accounted for using the equity method	**(106,457.89)**	24,197.42
Others	**3,490,824.04**	1,346,581.79
Total	**3,384,366.15**	1,370,779.21

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V. Notes to the Consolidated Financial Statements *(c ed)*

47. C edi im ai men lo e

Unit: RMB

Item	Amo n fo he e iod	Amount for the last period
Loss on bad debts of other receivables	**(2,376,261.95)**	(16,199,472.78)
Loss on bad debts of bills receivable	**(2,602,376.56)**	—
Loss on bad debts of accounts receivable	**(4,768,618.30)**	

V. Notes to the Consolidated Financial Statements *(c ed)*

49. Gain on di o al of a e

Unit: RMB

So ce of gain on di o al of a e	Amo n fo he e iod	Amount for the last period
Gains on disposal of non-current assets	**7,152,864.22**	3,501,489.47
Including: Gains on disposal of non-current assets classi□ed as held-for-sale		—
Including: Gains on the disposal of □xed assets		—
Gains on disposal of intangible assets		—
Gains on disposal of non-current assets not classi□ed as held-for-sale	**7,152,864.22**	3,501,489.47
Including: Gains on the disposal of □xed assets	**2,140,948.22**	2,054,677.64
Gains on disposal of intangible assets	**5,011,916.00**	1,446,811.83
Total	**7,152,864.22**	3,501,489.47

50. Non-o e a ing Income

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period	Amo n c edi ed o non- ec ing o K o lo fo he c en e iod
Others	**9,730,641.34**	6,366,554.82	9,730,641.34
Total	**9,730,641.34**	6,366,554.82	9,730,641.34

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V. Notes to the Consolidated Financial Statements *(c ed)*

51. Non-o e a ing e en e

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period	Amo n c edi ed o non- ec ing o lo fo he c en e iod
Donations to external parties	**1,175,000.00**	1,029,816.00	1,175,000.00
Scrap loss of non-current assets loss	**1,936,365.35**	29,091.78	1,936,365.35
Estimated liabilities	**29,170,030.14**	9,489,704.33	29,170,030.14
Loss of creditor's rights	**3,438,367.95**	—	3,438,367.95
Default damages		2,745,268.11	—
Others	**189,339.69**	1,033,169.70	189,339.69
Total	**35,909,103.13**	14,327,049.92	35,909,103.13

52. Income a e en e

(1) Income a e en e li

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Current income tax expenses	**3,028,323.01**	2,820,105.97
Deferred income tax expenses	**6,652,382.55**	(44,064,071.48)
Total	**9,680,705.56**	(41,243,965.51)

V. Notes to the Consolidated Financial Statements *(c ed)*

52. Income a e en e *(c ed)*

(2) Reconcilia ion be een acco n ing o and income a e en e

Unit: RMB

I em	Amo n fo he e iod
Total pro□t	(215,227,132.00)
Income tax expenses calculated at statutory/applicable tax rate	(32,284,069.80)
Effect of different tax rates applicable to subsidiaries	(24,419,285.47)
Effect of adjustment to income tax for prior periods	24.34
Effect of non-taxable income	26,614.48
Effect of non-deductible costs, expenses and loss	596,561.40
Effect of research and development expenditures plus deductions	(10,848,883.24)
Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets	(1,585,919.89)
Effect of deductible temporary differences or deductible losses on deferred income tax assets unrecognized in the year	78,195,663.73
Income tax expenses	9,680,705.56

53. O he com ehen i e income

Refer to note VII.33 for details.

54. I em of a emen of ca h o

(1) O he ca h ecei ed ela ing o o e a ing ac i i ie

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Government grants	**30,453,297.60**	13,265,416.57
Interest income	**8,660,114.82**	8,890,148.88
Decrease in security deposits	**266,222,500.56**	—
Unfreezing of bank deposits	**3,620,000.00**	1,800,000.00
Refund of excess value-added tax paid	**12,549,715.93**	66,573,917.34
Refund of tax overpaid	**943,465.09**	5,187,281.76
Others	**4,201,886.55**	11,574,846.81
Total	**326,650,980.55**	107,291,611.36

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V. Notes to the Consolidated Financial Statements *(c ed)*

54. I em of a emen of ca h o *(c ed)*

(2) O he ca h aid ela ing o o e a ing ac i i ie

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Delivery fees	**68,658,609.54**	99,523,174.84
Expenditures for research and development of new products	**40,973,479.68**	17,268,885.13
Consumables	**8,919,960.92**	9,114,028.43
Agency fees	**5,075,345.97**	6,871,791.58
Travelling expenses	**1,370,422.28**	1,577,205.99
Repair charges	**11,054,972.70**	24,346,231.86
Utilities	**22,025,055.76**	8,329,969.17
Entertainment expenses	**7,560,335.07**	6,693,926.08
Increase in bill deposits		43,732,792.56
Compensations for investors' claims	**33,226,680.18**	—
Bank deposits frozen		3,620,000.00
Handling charges by □nancial institutions	**6,426,577.21**	7,942,049.79
Others	**51,599,117.03**	16,782,351.31
Total	**256,890,556.34**	245,802,406.74

(3) O he ca h aid ela ing o nancing ac i i ie

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Borrowings from shareholders and other entities		160,000,000.00
Total		160,000,000.00

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V. Notes to the Consolidated Financial Statements *(c ed)*

55. S lemen al info ma ion fo a emen of ca h o

(1) S lemen al info ma ion fo a emen of ca h o

Unit: RMB

S lemen al info ma ion	Amo n fo he e iod	Amount for the last period
1. Reconcilia ion of ne o ca h o f om o e a ing ac i i ie :		
Net pro□t	**(224,907,837.56)**	102,406,466.63
Add: Provision for impairment of assets	**54,542,264.21**	48,417,078.69
Depreciation of □xed assets, oil and gas assets and productive biological assets	**233,184,214.62**	238,867,452.19
Amortisation of intangible assets	**19,122,913.33**	31,644,301.63
Loss on disposal of □xed assets, intangible assets and other long-term assets (gain is expressed with "—")	**(7,152,864.22)**	(3,501,489.47)
Loss on retirement of □xed assets (gain is expressed with "—")	**1,936,365.35**	29,091.78
Finance expenses (gain is expressed with "—")	**153,997,969.29**	211,630,031.54
Investment loss (gain is expressed with "—")	**(3,384,366.15)**	(1,370,779.21)
Decrease in deferred income tax assets (increase is expressed with "—")	**7,024,583.13**	(42,864,652.14)
Increase in deferred income tax liabilities (decrease is expressed with "—")	**(372,200.58)**	(1,199,419.34)
Decrease in inventories (increase is expressed with "—")	**93,998,323.97**	(124,591,643.16)
Decrease in trade receivables (increase is expressed with "—")	**291,359,462.32**	(917,484,935.85)
Increase in trade payables (decrease is expressed with "—")	**69,004,590.37**	827,608,093.03
Net cash □ows generated from operating activities	**688,353,418.08**	369,589,596.32
2. Signi can in e ing and nancing ac i i ie no in ol ing ca h ecei o a men :		
3. Ne change in ca h and ca h e i alen :		
Balance of cash at the end of the period	**496,256,836.18**	578,924,482.20
Less: Balance of cash at the beginning of the period	**578,924,482.20**	661,396,103.17
Net increase in cash and cash equivalents	**(82,667,646.02)**	(82,471,620.97)

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V. Notes to the Consolidated Financial Statements

V. Notes to the Consolidated Financial Statements *(c ed)*

57. Fo eign c enc mone a i em

(1) Fo eign c enc mone a i em

Unit: RMB

I em	Balance in fo eign c enc a he end of he e iod	E change a e	Balance in RMB
Monetary funds			
Including: USD	16,753,216.52	6.9762	116,873,789.09
EUR	0.37	7.8155	2.89
HKD	—	—	—
Accounts receivable			
Including: USD	21,268,119.81	6.9762	148,370,657.42
EUR	139,021.64	7.8155	1,086,523.63
HKD	—	—	—
Short-term borrowings			
Including: USD	5,000,000.00	6.9762	34,881,000.00
Long-term borrowings			
Including: USD	—	—	—
EUR	—	—	—
HKD	—	—	—
Accounts payables			
Including: USD	4,521,197.41	6.9762	31,540,777.37

(2) Info ma ion on fo eign o e a ing en i ie incl ding (in ca e of ignik can fo eign o e a ing en i ie) he di clo e of hei o e ea inci al lace of b ine , e o ing c enc and ba i fo elec ion, and ea on fo change of he e o ing c enc .

✓ Applicable ☐ Not applicable

MPM, a controlled subsidiary of the Company (having 90% of its shareholdings and voting rights) is domiciled and principally operated in Hong Kong and its reporting currency is USD.

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V. Notes to the Consolidated Financial Statements *(c ed)*

58. Go e nmen g an

(1) Gene al info ma ion of go e nmen g an

Unit: RMB

T e	Amo n	I em e en ed	Amo n incl ded in o o lo fo he e iod
Subsidies and grants for recycling resource enterprises	11,703,891.00	Other income	11,703,891.00
Stability and social insurance subsidies	563,748.95	Other income	563,748.95
Bonuses for technology upgrade and energy conversion	1,108,200.00	Other income	1,108,200.00
Grants for defense basement construction	719,085.90	Deferred revenue/other income	287,634.36
Special funds for external trade development	123,700.00	Other income	123,700.00
Others	245,120.00	Other income	245,120.00
Total	14,463,745.85	—	14,032,294.31

(2) Ref nd of go e nmen g an

☐ Applicable ✓ Not applicable

Other description:

The Group had no refund of government grants during the period.

VI. Changes in scope of consolidation

1. Di o al of b idia ie

Whether there was a loss of control in a single disposal of investments in subsidiaries

☐ Yes ✓ No

Whether there was a loss of control during the period under a progressive disposal of investments in subsidiaries through multiple transactions

☐ Yes ✓ No

2. Change in co e of con olida ion d e o o he ea on

Describe the change in scope of consolidation due to other reasons (e.g. incorporate a new subsidiary, liquidate a subsidiary) and its details:

On 24 December 2019, Wendeng Baolong Recyclable Resource Co., Ltd. (文登市寶隆再生資源有限公司), a subsidiary of the Company, received a notice from the Administrative Examination and Approval Service Bureau under the Administration for Market Regulation of Wendeng District of Weihai City, notifying that the deregistration was approved.

Shouguang Maolong Old Metals Recycle Co., Ltd. (壽光市懋隆廢舊金屬回收有限公司), a wholly-owned subsidiary of the Company, completed the liquidation process and submitted application for deregistration with the relevant government authorities in December 2019. On 18 February 2020, the Company received the notice of deregistration approval from the Administrative Examination and Approval Service Bureau of Shouguang City, granting the approval for deregistration of the company.

Molong Energy was established on 13 March 2019, with registered capital of RMB1,000 ten thousand. It is interested by Shandong Molong as to 51% and by 山東鴻進能源管理有限公司 (Shandong Hongjin Energy Management Co., Ltd.) as to 49%. Up to the disclosure date of this report, Molong Energy has not yet commenced any business operation.

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VII. Interests in other entities

1. In e e in b idia ie

(1) S c e of he b ine g o

Name of b idia	Fo m of b ine	P inci al lace of o e a ion	Place of egi a ion	B ine na e	Regi e ed ca i al	Pe cen age of ha eholding Di ec	Indi ec	Me hod of ac i i ion
MPM	Limited company	Hong Kong	Hong Kong	Trading	USD100 ten thousand	90.00%	0.00%	Mergers and acquisition
Maolong New Materials	Limited liability company	Shouguang	Shouguang	Manufacturing	RMB71,238 ten thousand	100.00%	0.00%	Mergers and acquisition
Molong Electro-mechanical	Limited liability company	Shouguang	Shouguang	Manufacturing	USD100 ten thousand	0.00%	100.00%	Mergers and acquisition
Shouguang Baolong	Limited liability company	Shouguang	Shouguang	Manufacturing	RMB15,000 ten thousand	70.00%	0.00%	Establishment by investment
Weihai Baolong	Limited liability company	Weihai	Weihai	Manufacturing	RMB2,600 ten thousand	61.54%	38.46%	Mergers and acquisition
Molong Logistic	Limited liability company	Shouguang	Shouguang	Services	RMB300 ten thousand	100.00%	0.00%	Establishment by investment
Molong I&E	Limited liability company	Shouguang	Shouguang	Import and export	RMB1,000 ten thousand	100.00%	0.00%	Establishment by investment
Baolong Consultancy	Limited liability company	Shouguang	Shouguang	Services	RMB15,000 ten thousand	0.00%	50.00%	Mergers and acquisition
Molong Energy	Limited liability company	Shouguang	Shouguang	Services	RMB1,000 ten thousand	51.00%	0.00%	Establishment by investment

As at 31 December 2019, none of the subsidiaries of the Company has issued any share capital or debt securities.

Reason for control over investee can be retained with less than half of voting rights, and control over investee was lost with more than half of voting rights:

The Group was the largest shareholder of Baolong Consultancy holding 50% equity interest. The other six shareholders were all natural persons and the shareholdings were dispersed (at a percentage of 10% or 6.67%). As stipulated in the articles of association of Baolong Consultancy, for a resolution proposed at board meeting, each person can cast one vote. A board resolution shall be passed by a majority of directors. The company had 3 directors, all of them were appointed by the Group. The Group had de facto control over Baolong Consultancy, and therefore, it was included within the scope of consolidation.

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VII. Interests in other entities *(c ed)*

1. In e e in b idia ie *(c ed)*

(2) Signi can non- holl o ned b idia ie

Unit: RMB

Name of b idia	Sha eholding of mino i ha eholde	P o and lo a ib able o mino i ha eholde fo he e iod	Di idend decla ed o mino i ha eholde fo he e iod	Balance of mino i ha eholde a he end of he e iod
Shouguang Baolong	30.00%	(27,217,756.55)	—	(31,120,652.72)
Baolong Consultancy	50.00%	(1,405,354.86)	—	72,757,222.66
Total	—	(28,623,111.41)	—	41,636,569.94

(3) Ke nancial info ma ion of igni can non- holl o ned b idia ie

Unit: RMB

	Balance a he end of he e iod						Balance a he beginning of he e iod					
		Non-c en		C en	Non-c en			Non-c en		C en	Non-c en	
Name of b idia	C en a e	a e	To al a e	liabili ie	liabili ie	To al liabili ie	C en a e	a e	To al a e	liabili ie	liabili ie	To al liabili ie
Shouguang Baolong	513,557,768.92	464,035,585.79	977,593,354.71	1,018,236,789.18	–	1,018,236,789.18	935,803,481.82	487,584,021.44	1,423,387,503.26	1,389,237,687.71	–	1,389,237,687.71
Baolong Consultancy	145,547,064.05	7,415.35	145,554,479.40	40,034.08	–	40,034.08	148,317,739.68	7,415.35	148,325,155.03	–	–	–

Unit: RMB

	Amo n fo he e iod				Amo n fo he la e iod			
			To al com ehen i e	Ca h o fom			To al com ehen i e	Ca h o fom
Name of b idia	O e a ing e en e	Ne o	income	o e a ing ac i i ie	O e a ing e en e	Ne o	income	o e a ing ac i i ie
Shouguang Baolong	2,429,768,366.38	(74,793,250.02)	(74,793,250.02)	356,131,767.71	2,295,923,282.10	1,435,174.78	1,435,174.78	381,183,240.57
Baolong Consultancy	1,105,495.28	(2,810,709.71)	(2,810,709.71)	(100,011,151.88)	66,037.74	291,540.98	291,540.98	44,903,783.13

(4) Majo e ic ion on he e of a e and e lemen of deb of he b ine g o

Nil

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VII. Interests in other entities *(c ed)*

1. In e e in b idia ie *(c ed)*

(5) P o i ion of nancial o o he o fo c ed en i ha i con olida ed in o he con olida ed nancial a emen

Nil

2. T an ac ion i h change in ha e of o ne ' e i b e ain con ol o e b idia

(1) De ail of he change in o ne ' e i ie of he b idia

Nil

3. In e e in join en e a angemen o a ocia e

(1) Majo e ic ion on he abili of an fe ing f nd o he Com an of join en e o a ocia e

There were no material restrictions on the capacity of an associate to transfer capital to the Company.

(2) E ce i e lo e inc ed b join en e o a ocia e

None of the associates incurred any excessive losses.

(3) Un ecogni ed commi men ela ing o in e men in join en e

The Group did not have any unrecognised commitment in relation to joint ventures.

(4) Con ingen liabili ie ela ing o in e men of join en e o a ocia e

The Group had no contingent liabilities relating to investment of joint venture.

4. In e e in c ed en i ha i no incl ded in he co e of con olida ed nancial a emen

Descriptions of not consolidating structured entities into the consolidated nancial statements:

The Group had no structured entity that is not included in the scope of consolidated nancial statements.

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's major nancial instruments include borrowings, accounts receivable, accounts payable and others. Detailed descriptions of these nancial instruments are set out in Note VI. Risks associated with these nancial instruments and the risk management policies adopted by the Group to mitigate such risks are described below. The management of the Group manages and monitors these risk exposures to ensure such risks are contained within a prescribed scope.

1. Objec i e and olicie of i k managemen

The Group engages in risk management with the aim of achieving an appropriate balance between risk and revenue, where the negative effects of risks against the Group's operating results are minimised, with a view to maximise the bene ts of shareholders and other stakeholders. Based on such objective of risk management, the underlying strategy of the Group's risk management is to ascertain and analyse all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

(1) Ma ke i k

1) F eg e c a ge

Foreign exchange risk represents risks of loss incurred as a result of changes in exchange rate. The Group is mainly exposed to foreign exchange risks in connection with USD, HKD and EUR, except for the parent company and its subsidiaries MPM of the Group which entered purchases and sales in USD, EUR and HKD, other principal operating activities of the Group are settled in RMB. As at 31 December 2019, except for the USD balances in assets and liabilities, odd monies in EUR and HKD balances as set out below, all balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from these assets and liabilities in USD balances may affect the operating results of the Group.

Unit: RMB

I em	31 Decembe 2019	31 December 2018
Monetary funds — USD	**116,873,789.09**	31,431,405.00
Monetary funds — EUR	**2.89**	13,941.36
Monetary funds — HKD		—
Accounts receivable — USD	**148,370,657.42**	134,818,871.89
Accounts receivable — EUR	**1,086,523.61**	1,105,079.95
Other receivables — USD		35,025,597.16
Prepayments — USD		691,810.56
Short-term borrowings — USD	**34,881,000.00**	89,221,600.00
Accounts payable — USD	**31,540,777.37**	3,334,770.68
Other payables — USD		173,159.09
Contract liabilities — USD		19,878,622.03
Contract liabilities — EUR		5,281,104.28
Interests payable — USD		423,591.01

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(c ed)*

1. Objec i e and olicie of i k managemen *(c ed)*

(1) Ma ke i k *(c ed)*

1) F e g e c a ge (c ed)

The Group closely monitors the effect of changes in foreign exchange rates to the Group.

The Group has always placed its concern on the research of foreign exchange risk management policies and strategies. It maintains close co-operation with □nancial institutions engaging in foreign exchange business, and arranges favourable settlement terms in contracts to reduce foreign exchange risk. Meanwhile, with the continuous increase in the proportion of international market, if risks beyond the control of the Group, such as the appreciation of RMB, the Group will mitigate such risk via suitable adjustment of sales strategies.

2) L e e a e

Interest rate risk refers to the risk that the fair value or future cash □ow of a □nancial instrument will □uctuate because of the changes in market interest rate. The Group's interest rate risk arises from interest-bearing liabilities, such as borrowings from □nancial institutions. Financial liabilities issued at □oating rate expose the Group to cash □ow interest rate risk. Financial liabilities issued at □xed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2019, the Group's interest-bearing liabilities were mainly floating-rate loan contracts amounting to RMB594,800,000.00 (31 December 2018: RMB319,000,000.00) and □xed-rate loan contracts denominated in RMB amounting to RMB1,875,393,674.86 (31 December 2018: RMB2,168,758,402.29).

The Group's risk of changes in fair value of □nancial instruments resulted from the changes in interest rates was mainly associated with □xed-rate bank loans. The Group aims at maintaining these □xed-rate bank loans at □oating rates.

The Group's risk of changes in cash □ow of □nancial instruments resulted from the changes in interest rates was mainly associated with □oating-rate bank loans. The Group's policy is to maintain these loans at □oating rates, so as to eliminate fair value risks arising from changes in interest rate.

The Company designs rationally credit lines, various credit types and the term of credit lines through the establishment of good relations between banks and enterprise to ensure suf□cient bank line of credit and meet the Company's various types of needs for short-term financing. Meanwhile, the Company reduce rationally risk of interest rate □uctuations by shortening the duration of a single borrowing and special agreement on early repayment terms.

3) P ce

The Group sells metal products at market price so as to be in□uenced by □uctuation in selling price.

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(c ed)*

1. Objec i e and olicie of i k managemen *(c ed)*

(2) C edi i k

(2) at 56e TH FINA8yssre-r62019, the biggest cum Mak

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(c ed)*

1. Objec i e and olicie of i k managemen *(c ed)*

(3) Li idi i k *(c ed)*

The following table demonstrates the nancial assets and nancial liabilities held by the Group according to the maturity of undiscounted remaining contractual obligations:

Amount at 31 December 2019:

Unit: RMB

I em	Wi hin 1 ea	1 2 ea	2 5 ea	O e 5 ea	To al
Financial a e					
Monetary funds	539,942,128.18	—	—	—	539,942,128.18
Bills receivable	257,635,279.11	—	—	—	257,635,279.11
Accounts receivable	507,559,024.95	—	—	—	507,559,024.95
Financing receivables	96,155,523.75	—	—	—	96,155,523.75
Loans and advances	17,046,915.97	—	—	—	17,046,915.97
Other receivables	29,289,226.01	—	—	—	29,289,226.01
Financial liabili ie					
Short-term borrowings	1,929,510,883.39	—	—	—	1,929,510,883.39
Bills receivable	281,588,603.88	—	—	—	281,588,603.88
Accounts payables	924,020,613.80	—	—	—	924,020,613.80
Other payables	61,423,531.25	—	—	—	61,423,531.25
Non-current liabilities due within one year	482,636,906.78	—	—	—	482,636,906.78
Other current liabilities	87,557,572.20	—	—	—	87,557,572.20
Long-term payables	—	54,116,154.13	3,929,730.56	—	58,045,884.69

2. Sen i i i anal i

The Group applies sensitivity to analyze the rationality of technical risk variables and the effects of possible changes on pro t and loss or shareholders' equity. As any risk variable seldom varies, and correlation among variables will play a major role in the ultimate amount of a special risk variable. Therefore, the followings are carrying out on the assumed condition that each variable change independently.

(1) Sen i i i anal i of fo eign e change

Foreign exchange risk sensibility analysis hypothesis: all the foreign operations and investments and cash ows are highly effective.

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(c ed)*

2. Sen i i i anal i *(c ed)*

(1) Sen i i i anal i of fo

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(c ed)*

2. Sen i i i anal i *(c ed)*

(2) Sen i i i anal i of in e e a e i k *(c ed)*

Based on the above assumptions, on the basis that all other variables are held constant, the effect of reasonable changes in interest rate that may arise on the pro□t and loss and equity for the period after tax are set out below:

Unit: RMB

		2019		2018	
I em	**Change in e change a e**	**Effec on ne ok**	**Effec on o ne ' e i**	Effect on net pro□t	Effect on owners' equity
Variable-rate borrowings	Increased 1%	**(2,656,155.56)**	**(2,656,155.56)**	(1,424,080.56)	(1,424,080.56)
Variable-rate borrowings	Decreased 1%	**2,656,155.56**	**2,656,155.56**	1,424,080.56	1,424,080.56

IX. Fair value disclosures

As at 31 December 2019, the Group's □nancing receivables were measured at fair value. As the related bank acceptance bills had short maturities, the difference between their fair value and carrying amount was minimal.

The Group's □nancial assets and liabilities not measured at fair value mainly included: accounts receivables, short-term borrowings, accounts payables and long-term borrowings. The difference between book value and fair value of □nancial assets and liabilities measured at fair value was immaterial.

X. Related Party and Related Party Transactions

1. Pa en com an of he Com an

Description of the parent company of the Company

The ultimate controlling party of the Company is Zhang En Rong.

Other description:

As at 31 December 2019, Mr. Zhang En Rong owned 29.53% voting shares in the Company, and was the controlling shareholder and the ultimate controlling party of the Company.

X. Related Party and Related Party Transactions *(c ed)*

2. S b idia ie of he Com an

Subsidiaries of the Company is detailed in note IX.1.

3. Join en e and a ocia e of he Com an

The following joint venture or associate entered into related transactions with the Company during the period or had balances from related transactions with the Company for the prior period:

Name of join en e o a ocia e	Rela ion hi i h he Com an
Karamay Yalong Oil Pump Company Limited	Associate of the Company

4. O he ela ed a

Name of o he ela ed a	Rela ion hi be een o he ela ed a and he Com an
Shouguang Molong Cultural Transmission Co., Ltd.	Other enterprise controlled by controlling shareholder

5. Rela ed a an ac ion

(1) Rela ed a an ac ion ega ding he cha e and ale of good and o i ion and ecei of e ice

Sale of goods/rendering of services

Unit: RMB

Rela ed a	S bjec ma e of he ela ed a an ac ion	Amo n fo he e iod	Amo n fo he la e iod
Karamay Yalong Petroleum Machinery Co., Ltd.	Oil pumping units and accessories	3,917,106.80	4,103,310.69

(2) Rela ed g a an ee

The Company as a guarantor

Nil

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(U e e d ca ed, a g e a e a ed RMB)

X. Related Party and Related Party Transactions *(c ed)*

5. Rela ed a an ac ion *(c ed)*

(2) Rela ed g a an ee *(c ed)*

The Company as guaranteed party

Unit: RMB

G a an o	G a an ee amo n	Commencemen da e of he g a an ee	E i da e of he g a an ee	Ha he g a an ee f lled
Zhang En Rong	50,011,900.00	9 October 2017	8 October 2020	No
Zhang En Rong	250,000,000.00	7 December 2018	7 December 2020	No
Shouguang Baolong	40,000,000.00	5 March 2019	5 March 2020	No
Shouguang Baolong	100,000,000.00	24 September 2019	24 January 2020	No
Maolong New Materials	20,000,000.00	23 March 2019	20 March 2020	No
Maolong New Materials	30,000,000.00	1 April 2019	20 March 2020	No
Maolong New Materials	80,000,000.00	9 April 2019	7 April 2020	No
Maolong New Materials	60,000,000.00	17 April 2019	16 April 2020	No
Maolong New Materials	70,000,000.00	25 April 2019	23 April 2020	No
Maolong New Materials	30,000,000.00	19 May 2019	12 May 2020	No
Maolong New Materials	80,000,000.00	23 May 2019	22 May 2020	No
Maolong New Materials	60,000,000.00	24 July 2019	23 July 2020	No
Maolong New Materials	36,000,000.00	10 September 2019	9 September 2020	No
Maolong New Materials	64,000,000.00	15 October 2019	14 October 2020	No
Maolong New Materials	47,000,000.00	7 November 2019	7 November 2020	No
Maolong New Materials	47,600,000.00	14 June 2019	14 June 2020	No
Maolong New Materials	48,200,000.00	4 April 2019	4 April 2020	No
Maolong New Materials	54,000,000.00	1 April 2019	1 April 2020	No

Descriptions of related guarantees

Mr. Zhang En Rong, the controlling shareholder of the Company, pledged part of the shares of the Company held by him to secure the nancing granted to the Company.

X. Related Party and Related Party Transactions *(c ed)*

5. Rela ed a an ac ion *(c ed)*

(3) Com en a ion of ke managemen e onnel

① Details of the remuneration of the directors, supervisors and senior management of the Company in 2019 are set out below:

Unit: RMB

Name	Fee	Wage	Re i emen cheme con ib ion	Allo ance and bene	To al
E ec i e di ec o					
Liu Yun Long	0	658,822.64	24,889.83	12,413.46	696,125.93
Li Zhi Xin	0	462,388.48	27,347.91	11,078.82	500,815.21
Liu Min	0	407,090.16	27,347.91	3,131.91	437,569.98
Zhang Yu Zhi	0	381,686.97	0	9,570.00	391,256.97
Sub-total	0	1,909,988.25	79,585.65	36,194.19	2,025,768.09
Non-e ec i e di ec o					
Yao You Ling	0	0	0	0	0
Wang Quan Hong	0	0	0	0	0
Sub-total	0	0	0	0	0
Inde enden non- e ec i e di ec o					
Tang Qing Bin	127,266.67	0	0	0	127,266.67
Song Zhi Wang	127,266.67	0	0	0	127,266.67
Cai Zhong Jie	127,266.67	0	0	0	127,266.67
Sub-total	381,800.01	0	0	0	381,800.01
S e i o					
Wei Zhao Qiang	0	172,135.55	18,558.53	12,923.17	203,617.25
Wang Ming Hua	37,600.00	0	0	0	37,600.00
Liu Bo	37,600.00	0	0	0	37,600.00
Sub-total	75,200.00	172,135.55	18,558.53	12,923.17	278,817.25
O he enio managemen	0	0	0	0	0
Total	457,001.01	2,082,123.80	98,144.18	49,117.36	2,686,385.35

N e: Allowances and bene□ts included longevity allowance and meal allowance.

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X. Related Party and Related Party Transactions *(c ed)*

5. Rela ed a an ac ion *(c ed)*

(3) Com en a ion of ke managemen e onnel *(c ed)*

② Details of the remuneration of the directors, supervisors and senior management of the Company in 2018 are set out below:

Unit: RMB

Name	Fee	Wage	Re i emen cheme con ib ion	Allo ance and bene	To al
E ec i e di ec o					
Zhang En Rong	0.00	260,000.00	0.00	0.00	260,000.00
Guo Huanran	0.00	483,537.85	31,016.01	11,020.00	525,573.86
Yang Jin	0.00	194,493.84	23,918.60	2,927.18	221,339.62
Sub-total	0.00	938,031.69	54,934.61	13,947.18	1,006,913.48
Non-e ec i e di ec o					
Wang Chun Hua	36.842.11	0.00	0.00	0.00	36.842.11
Guo Hong Li	36.842.11	0.00	0.00	0.00	36.842.11
Sub-total	73,684.22	0.00	0.00	0.00	73,684.22
Inde enden non-e ec i e di ec o					
Qin Xue Chang	77,941.18	0.00	0.00	0.00	77,941.18
Ji Yan Song	77,941.18	0.00	0.00	0.00	77,941.18
Quan Yu Hua	77,941.18	0.00	0.00	0.00	77,941.18
Sub-total	233,823.54	0.00	0.00	0.00	233,823.54
S e i o					
Hao Liang	0.00	82,015.97	13,391.28	7,395.00	102,802.25
Zhang Jiu Li	11,904.76	0.00	0.00	0.00	11,904.76
Zheng Jian Guo	11,904.76	0.00	0.00	0.00	11,904.76
Sub-total	23,809.52	82,015.97	13,391.28	7,395.00	126,611.77
O he enio managemen					
Zhao Hong Feng	0.00	321,684.90	30012.57	8,727.60	360,425.07
Zhang Yu Zhi	0.00	384,762.04	28,557.93	12,720.02	426,039.99
Liu Min	0.00	383,737.84	31,016.01	2,440.00	417,193.85
Sub-total	0.00	1,090,184.78	89,586.51	23,887.62	1,203,658.91
Total	331,317.28	2,110,232.44	157,912.40	45,229.80	2,644,691.92

X. Related Party and Related Party Transactions *(c ed)*

5. Rela ed a an ac ion *(c ed)*

(3) Com en a ion of ke managemen e onnel *(c ed)*

③ During the year, the five highest paid individuals of the Company included three (last year: four) directors and two (last year: one) other management. The remuneration of the two other management ranged between RMB0 — RMB90 ten thousand.

Remuneration of the highest paid individuals:

Unit: RMB

I em	Amo n fo he ea	Amount for the last year
Wages	**2,449,232.16**	2,232,653.98
Retirement scheme contribution	**134,281.47**	130,323.52
Allowances and bene□ts	**45,512.66**	49,902.90
Total	**2,629,026.29**	2,412,880.40

The remunerations of the highest paid individuals were within the following bands (by number of individuals):

Band of ann al em ne a ion	N mbe of indi id al of he ea	Number of individuals of last year
RMB0–RMB90 ten thousand (equivalent to HKD0–HKD100 ten thousand)	**5**	5
Total	**5**	5

④ During the year, the Company did not pay any remuneration to any director, supervisor or the □ve highest paid individuals as inducement to join or upon joining the Company or as compensation for loss of of□ce. During the year, none of the directors waived or agreed to waive any remuneration.

(4) O he connec ed an ac ion

The Group had no other connected transactions or continuing connected transactions.

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X. Related Party and Related Party Transactions *(c ed)*

6. Amo n d e f om and d e o ela ed a ie

(1) Recei able

Unit: RMB

		Balance a he end of he e iod		Balances at the beginning of the period	
I em	**Rela ed a**	**Book balance**	**P o i ion of bad deb**	Book balance	Provision of bad debts
Accounts receivable	Karamay Yalong Petroleum Machinery Co., Ltd	**3,604,705.96**	**36,047.06**	2,443,087.15	24,430.87

7. Rela ed a commi men

Mr. Zhang En Rong, the controlling shareholder of the Company undertook that, when it was necessary to the Company, the controlling shareholder would use reasonable ways such as pledge over shares of the Company to obtain funds to be provided to the Company as business working capital, or repayment of loans and re□nancing.

As at 31 December 2019, 18,761.70 ten thousand of shares of the Company held by Mr. Zhang En Rong was used to secure the external □nancings of the Group, representing 79.63% of the total number of ordinary shares of the Company held by him, and 23.52% of the total share capital of the Company.

XIII. Share-based payments

1. Sha e-ba ed a men

☐ Applicable ✓ Not applicable

2. E i - e led ha e-ba ed a men

☐ Applicable ✓ Not applicable

3. Ca h- e led ha e-ba ed a men

☐ Applicable ✓ Not applicable

4. Re i ion and e mina ion of ha e-ba ed a men

Nil

5. O he

The Group had no share-based payments during the year.

XII. Commitments and contingencies

1. Ma e ial commi men

Material commitments at balance sheet date

(1) Signi can commi men

The Group did not have any capital commitment at the end of the year.

(2) Pe fo mance of e io commi men

The Group has performed the previous commitments according to the contacts.

(3) A a 31 Decembe 2019, he G o did no ha e o he igni can commi men

2. Con ingencie

(1) Ma e ial con ingencie a balance hee da e

As at the date of these nancial statements, the cases against the Company by investors regarding false statements about securities have been entertained by the intermediate people's court of Jinan, and the aggregate sum involved was RMB88,414,796.64. Currently, the total amount involved in cases that have been judged or closed through mediation was RMB81,668,706.93, with settlement amount of RMB40,925,558.22. For closed cases, the Company is performing its obligations according to the judgment results. For those cases that have been heard but pending for judgment and those cases that have not been heard, estimated liabilities of RMB5,734,176.25 were provided at a rate of 85% with reference to the cases already closed. The total amount of estimated liabilities provided for this issue by the Company was RMB46,659,734.47.

(2) To a e ha he com an ha no ma e ial con ingenc ha need o be di clo ed

The Company had no material contingency that needs to be disclosed.

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XIII. Events subsequent to balance sheet date

1. P ok Di ib ion

Unit: RMB

Proposed pro□t distribution and dividend	0.00
Considered and approved pro□t distribution and dividend	0.00

2. Sale Re n

As at the date of these □nancial statements, the Group had no sales return.

3. De c i ion of o he b e en e en

(1) De ail of ok di ib ion

Pursuant to the plan for annual pro□t distribution passed by the sixth meeting of the sixth session of board of directors of the Company held on 27 March 2020, the Company did not propose a payment of □nal dividend in respect of the year ended 31 December 2019. Such plan for annual pro□t distribution is subject for consideration and approval at general meeting.

(2) Im ac of he no el co ona i di ea e andemic

Since the outbreak of novel coronavirus disease (COVID-19) across China since January 2020, ongoing precautionary and control measures have been implemented nationwide. Although the measures taken in China have been proven with positive results, the disease has been rapidly spreading overseas. The situation is expected to have relatively signi□cant and negative impacts to the operating results of the Company for the □rst quarter, but the impact on annual results is dependent to the duration of the pandemic and the implementation of precautionary and control measures around the world. The Company will continue to closely monitor the development of COVID-19 and take active response to the negative impact on the production and business operation of the Company.

(3) Other than the subsequent event as disclosed above, the Group had no other material subsequent events.

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XIV. Other significant events

1. Segmen info ma ion

(1) Ba i fo de e mining e o able egmen and acco n ing olicie

(1) Ba f de e g e ab e eg e

According to the internal organisational structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reportable segments. The Group identi□es the operating segments according to the internal organization structure, management requirements and internal reporting system. The Group's management regularly evaluates the operating results of these reportable segments to determine the resources to be allocated and its results to be evaluated. The main products provided by each of the Group's reportable segments includes casing, tubing, three kinds of pumping units, petroleum machinery, tube blanks and others.

(2) Acc g ce f e ab e eg e

Segment reporting information is disclosed in accordance to the accounting policies and measurement standards adopted for reporting to the management by each segment, which are consistent with the accounting policies and measurement basis for preparing □nancial statements.

(2) Financial info ma ion of e o able egmen

Unit: RMB

I em	Pi e od c	Th ee kind of m ing ni	Pe ole m machine a	T be blank	O he	Unalloca ed i em	In e egmen elimina ion	To al
Operating revenue	—	—	—	—	—	—	—	—
External revenue	3,456,742,513.39	43,755,412.12	34,536,314.66	699,060,843.61	154,809,132.13	—	—	4,388,904,215.91
Inter-segment revenue	—	—	—	—	—	—	—	—
Total segment operating revenue	3,456,742,513.39	43,755,412.12	34,536,314.66	699,060,843.61	154,809,132.13	—	—	4,388,904,215.91
Total operating revenue in □nancial statements	3,456,742,513.39	43,755,412.12	34,536,314.66	699,060,843.61	154,809,132.13	—	—	4,388,904,215.91
Segment expenses	3,251,448,904.82	38,709,586.60	29,871,093.73	730,641,927.60	148,088,372.92	—	—	4,198,759,885.67
Segment operating pro□t	205,293,608.57	5,045,825.52	4,665,220.93	(31,581,083.99)	6,720,759.21	—	—	190,144,330.24
Adjusted for:	—	—	—	—	—	—	—	—
Administrative expenses	—	—	—	—	—	193,606,016.95	—	193,606,016.95
Research and development expenditures	—	—	—	—	—	63,830,329.90	—	63,830,329.90
Finance expenses	—	—	—	—	—	146,326,178.28	—	146,326,178.28
Investment income	—	—	—	—	—	3,384,366.15	—	3,384,366.15
Gain on disposal of assets	—	—	—	—	—	7,152,864.22	—	7,152,864.22
Other income	—	—	—	—	—	14,032,294.31	—	14,032,294.31
Operating pro□t in □nancial statements	205,293,608.57	5,045,825.52	4,665,220.93	(31,581,083.99)	6,720,759.21	(379,193,000.45)	—	(189,048,670.21)
Non-operating income	—	—	—	—	—	9,730,641.34	—	9,730,641.34
Non-operating expenses	—	—	—	—	—	35,909,103.13	—	35,909,103.13
Total pro□t	205,293,608.57	5,045,825.52	4,665,220.93	(31,581,083.99)	6,720,759.21	(405,371,462.24)	—	(215,227,132.00)
Income tax	—	—	—	—	—	9,680,705.56	—	9,680,705.56
Net pro□t	205,293,608.57	5,045,825.52	4,665,220.93	(31,581,083.99)	6,720,759.21	(415,052,167.80)	—	(224,907,837.56)
Total segment assets	4,524,916,253.37	89,702,306.37	42,650,359.75	251,944,620.24	244,941,897.06	581,596,907.80	—	5,735,752,344.59
Total segment liabilities	1,679,499,863.13	13,519,843.55	18,331,433.12	157,284,149.04	27,286,558.05	2,050,870,989.10	—	3,946,792,835.99

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XIV. Other significant events *(c ed)*

2. O he ignik can an ac ion and i em affec ing deci ion-making of in e o

In 2019 and 2018, the Group derived all external revenue from the PRC and overseas. As all assets were located in the PRC, external revenue by location of income source is disclosed as follows:

Unit: RMB

E e nal e en e	Amo n fo he e iod	Amount for the last period
PRC (except Hong Kong)	**3,724,722,383.35**	4,083,930,871.08
Hong Kong		—
Other overseas regions	**664,181,832.56**	368,083,939.04
Total	**4,388,904,215.91**	4,452,014,810.12

XV. Notes to principal items in the financial statements of the parent Company

1. Acco n ecei able

(1) Di clo e of acco n ecei able b e

Unit: RMB

	Balance a he end of he e iod					Balance a he beginning of he e iod				
	Book balance		P o i ion fo bad deb			Book balance		Provision for bad debts		
T e	Amo n	Pe cen age	Amo n	P o i ion a e	Book al e	Amount	Percentage	Amount	Provision rate	Book value
Accounts receivable provided for bad debts on an individual basis	**19,965,734.73**	**2.69%**	**3,993,146.95**	**20.00%**	**15,972,587.78**	24,966,256.93	3.37%	9,986,502.77	40.00%	14,979,754.16
Including:										
Accounts receivable provided for bad debts on an individual basis due to signi cantly different credit risk	**19,965,734.73**	**2.69%**	**3,993,146.95**	**20.00%**	**15,972,587.78**	24,966,256.93	3.37%	9,986,502.77	40.00%	14,979,754.16
Accounts receivable provided for bad debts on a collective basis	**722,320,168.54**	**97.31%**	**123,822,853.21**	**17.14%**	**598,497,315.33**	716,739,993.96	96.63%	113,013,481.77	15.77%	603,726,512.19
Including:										
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	**598,161,430.94**	**80.58%**	**123,822,853.21**	**20.70%**	**474,338,577.73**	633,359,987.09	85.39%	113,013,481.77	17.84%	520,346,505.32
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on associates under consolidation	**124,158,737.60**	**16.73%**			**124,158,737.60**	83,380,006.87	11.24%	–	–	83,380,006.87
Total	**742,285,903.27**	**100.00%**	**127,816,000.16**		**614,469,903.11**	741,706,250.89	100.00%	122,999,984.54	–	618,706,266.35

Provision for bad debts on an individual basis: Accounts receivable provided for bad debts on an individual basis due to signi cantly different credit risk

XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

1. Acco n ecei able *(c ed)*

(1) Di clo e of acco n ecei able b e *(c ed)*

Unit: RMB

	Balance a he end of he e iod			
Name	**Book balance**	**P o i ion fo bad deb**	**P o i ion a e**	**Rea on fo o i ion**
Hebei Zhongtai Steel Pipe Manufacture Co., Ltd. (河北中泰鋼管製造有限公司)	19,965,734.73	3,993,146.95	20.00%	Provision was made based on the amount of expected credit loss of the customer
Total	19,965,734.73	3,993,146.95	—	—

Accounts receivable provided for bad debts on a collective basis: Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

	Balance a he end of he e iod		
Name	**Book balance**	**P o i ion fo bad deb**	**P o i ion a e**
Within 1 year	472,684,174.09	4,726,841.74	1.00%
1–2 years	168,705.00	84,352.50	50.00%
2–3 years	2,855,820.61	2,141,865.46	75.00%
3–5 years	37,219,584.90	31,636,647.17	85.00%
Over 5 years	85,233,146.34	85,233,146.34	100.00%
Total	598,161,430.94	123,822,853.21	—

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XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

1. Acco n ecei able *(c ed)*

(1) Di clo e of acco n ecei able b e *(c ed)*

D c e b age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	513,133,429.45
1 to 2 years	79,095,731.18
2 to 3 years	7,638,276.67
Over 3 years	142,418,465.97
3 to 4 years	18,568,664.26
4 to 5 years	38,616,655.37
Over 5 years	85,233,146.34
Total	742,285,903.27

(2) P o i ion, eco e o e e al of o i ion fo bad deb fo he e iod

Provisions for bad debts for the period:

Unit: RMB

		Mo emen d ing he e iod			
T e	Balance of he beginning of he e iod	Balance of he beginning of he e iod	Reco e o e e al	W i e-off	Balance of he end of he e iod
Provisions for bad debts of accounts receivable	122,999,984.54	4,816,015.62	—	—	127,816,000.16
Total	122,999,984.54	4,816,015.62	—	—	127,816,000.16

(3) Acco n ecei able i en off d ing he e iod

The Company did not write off any accounts receivable during the year.

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XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

1. Acco n ecei able *(c ed)*

(4) Balance of o K e acco n ecei able a a he end of he e iod b deb o

Unit: RMB

Name of en i	Balance of acco n ecei able a he end of he e iod	Pe cen age o he o al balance of acco n ecei able a he end of he e iod	Balance of bad deb a he end of he e iod
Entity I	190,774,786.44	25.70%	1,907,747.85
Entity II	108,332,411.85	14.59%	1,083,324.13
Entity III	103,818,152.85	13.99%	0
Entity IV	103,562,311.43	13.95%	1,203,623.11
Entity V	48,837,723.01	6.58%	48,163,972.11
Total	555,325,385.58	74.81%	—

(5) Acco n ecei able ha e e de ecogni ed on an fe of K nancial a e

As at 31 December 2019, the Company had no accounts receivable that were derecognised on transfer of nancial assets.

(6) Amo n of a e o liabili ie fo hich acco n ecei able ha e been an fe ed b in ol emen con in e

As at 31 December 2019, the Company had no assets or liabilities for which accounts receivable have been transferred but involvement continues.

(7)

1 Ja a 2019 31 Dece be 2019
(U e e d ca ed, a g e a e a ed RMB)

XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

2. O he ecei able

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Interests receivable	**2,308,030.91**	2,710,659.25
Other receivables	**739,726,291.37**	458,496,851.79
Total	**742,034,322.28**	461,207,511.04

(1) In e e ecei able

1) Ca ca f e e ece ab e

Unit: RMB

I em	Balance a he end of he e iod	Balance at the beginning of the period
Interests on security deposits	**2,308,030.91**	2,710,659.25
Total	**2,308,030.91**	2,710,659.25

2) Sg ca e d e e e

The above interests of the Group were not overdue.

The Company's interests receivable were interests on bank deposits and security deposits and would be paid on time at the interest payment dates of the banks. Therefore, provision for debts is not necessary.

3) P f bad deb

☐ Applicable ✓ Not applicable

1 Ja a 2019 31 Dece be 2019
(U e d ca ed, a g e a e a ed RMB)

XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

2. O he ecei able *(c ed)*

(2) O he ecei able

1) O e ece ab e b a e a e

Unit: RMB

Pa men na e	Balance a he end of he e iod	Balance at the beginning of the period
Staff turnover loans	**1,189,754.00**	1,120,000.00
Deposits/caution money	**3,589,758.00**	1,931,819.00
Amounts due from administrative entities	**14,530,000.00**	14,530,000.00
Other amounts due from individuals	**1,401,519.59**	37,803,877.48
Related parties under consolidation	**721,885,257.16**	440,284,184.61
Less: Provision for bad debts of other receivables	**(2,869,997.38)**	(37,173,029.30)
Total	**739,726,291.37**	458,496,851.79

2) P f bad deb

Unit: RMB

P o i ion fo bad deb	S age 1 Ne 12 mon h e ec ed c edi lo	S age 2 Life ime e ec ed c edi lo (i ho c edi im ai men)	S age 3 Life ime e ec ed c edi lo (i h c edi im ai men)	To al
Balance at 1 January 2019	258,877.87	1,776,729.82	35,137,421.61	37,173,029.30
Transfer of balance at 1 January 2019 during the period to stage 3	—	—	849,975.14	849,975.14
Provision for the period	(58,850.05)	893,239.74	849,975.14	1,684,364.83
Write-off during the period	—	—	35,987,396.75	35,987,396.75
Balance at 31 December 2019	200,027.82	2,669,969.56	0.00	2,869,997.38

Movement of book balance of signi□cant change in provision for the period

☐ Applicable ✓ Not applicable

1 Ja a 2019 31 Dece be 2019
(U e e d ca ed, a g e a e a ed RMB)

XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

2. O he ecei able *(c ed)*

(2) O he ecei able *(c ed)*

2) P f bad deb (c ed)

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	290,022,365.30
1 to 2 years	1,116,876.22
2 to 3 years	412,137,127.41
Over 3 years	39,319,919.82
3 to 4 years	1,922,830.89
Over 5 years	37,397,088.93
Total	742,596,288.75

3) P , ec e e a f, f bad deb f e, e d

Provisions for bad debts for the period:

Unit: RMB

T e	Balance a he beginning of he e iod	Mo emen d ing he e iod			Balance a he end of he e iod
		P o i ion	Reco e o e e al	W i e-off	
Provisions for bad debts of other receivables	37,173,029.30	1,684,364.83	—	35,987,396.75	2,869,997.38
Total	37,173,029.30	1,684,364.83	—	35,987,396.75	2,869,997.38

1 Ja a 2019 31 Dece be 2019
(U e e d ca ed, a g e a e a ed RMB)

XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

2. O he ecei able *(c ed)*

(2) O he ecei able *(c ed)*

4) O e ece ab e e ff d g e, e d

Unit: RMB

I em	W i e-off Amo n
Other receivables	35,987,396.75

Signi□cant write-off of other receivables:

Unit: RMB

Name of en i	Na e of o he ecei able	W i e-off amo n	Rea on fo i e-off	P oced e fo i e-off	Whe he he amo n a inc ed f om connec ed an ac ion
JESORO OIL LTD	Current amounts	35,865,277.50	Deregistration of JESORO OIL LTD	Considered and passed by the second special meeting of the sixth session of board of directors of the Company	No
Total	—	35,865,277.50	—	—	—

Description of write-off of other receivables:

The Company has fully made bad debt provision for the other receivables as at the end of 2018.

1 Ja a 2019 31 Dece be 2019
(U e e d ca ed, a g e a e a ed RMB)

XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

2. O he ecei able *(c ed)*

(2) O he ecei able *(c ed)*

5) Ba a ce f e e ece ab e a a e e d f e, e d b deb

Unit: RMB

Name of en i	Na e of a men	Balance a he end of he e iod	Age	Pe cen age o he o al amo n of clo ing balance of o he ecei able	Balance of bad deb o i ion a he end of he e iod
Shouguang Maolong New Materials Technology Development Co., Ltd.	Current accounts of related party	608,882,118.83	Within 3 years	81.99%	—
Shouguang Molong Logistic Co., Ltd.	Current accounts of related party	113,003,138.33	1–5 years	15.22%	—
Shouguang City Yang Kou Town Of□ce of Finance	Current accounts of the government	14,530,000.00	Over 5 years	1.96%	2,615,400.00
Shaanxi Energy Chemical Exchange Limited	Security deposits	1,935,000.00	Within 1 year	0.26%	—
Sinopec International Business Co., Ltd., Nanjing Bidding Centre (中國石化國際事業有限公司南京招標中心)	Security deposits	894,258.00	Within 1 year	0.12%	—
Total	—	739,244,515.16	—	99.55%	2,615,400.00

6) Rece ab e g g e e g a
Nil

7) O e ece ab e de ec g ed d e a fe f a ca a e
As at 31 December 2019, the Group had no other receivables that were derecognised due to transfer of □nancial assets.

8) A f a e a d ab e f c e ece ab e a e bee a fe ed b e e c e
As at 31 December 2019, there were no assets or liabilities for which the other receivables have been transferred but involvement continues.

Other description:

As at 31 December 2019, no other receivables were used by as a pledge.

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XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

3. Long- e m e i in e men

Unit: RMB

	Balance a he end of he e iod			Balance at the beginning of the period		
I em	Book balance	P o i ion fo im ai men	Book al e	Book balance	Provision for impairment	Book value
Investment in subsidiaries	**1,352,019,921.73**	**208,000,000.00**	**1,144,019,921.73**	1,352,069,921.73	208,000,000.00	1,144,069,921.73
Total	**1,352,019,921.73**	**208,000,000.00**	**1,144,019,921.73**	1,352,069,921.73	208,000,000.00	1,144,069,921.73

(1) In e men in b idia ie

Unit: RMB

		Balance of im ai men o i ion a he end of he e iod					
In e ee	Balance a he beginning of he e iod (Book al e)	Inc ea e in in e men	Dec ea e in in e men	Cha ge fo im ai men o i ion	O he	Balance a he end of he e iod (Book al e)	Balance of im ai men o i ion a he end of he e iod
Maolong New Materials	1,006,743,691.73	—	—	—	—	1,006,743,691.73	—
Weihai Baolong	117,000,000.00	—	—	—	—	117,000,000.00	103,000,000.00
MPM	7,276,230.00	—	—	—	—	7,276,230.00	—
Shouguang Baolong	0.00	—	—	—	—	0.00	105,000,000.00
Molong Logistic	3,000,000.00	—	—	—	—	3,000,000.00	—
Maolong Recycle	50,000.00	—	50,000.00	—	—	—	—
Molong I&E	10,000,000.00	—	—	—	—	10,000,000.00	—
Total	1,144,069,921.73	—	50,000.00	—	—	1,144,019,921.73	208,000,000.00

XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

4. O e a ing e en e and o e a ing co

Unit: RMB

	Amo n fo he e iod		Amount for the last period	
I em	**Re en e**	**Co**	Revenue	Cost
Principal operations	**3,508,230,127.77**	**3,108,782,121.22**	3,928,624,271.41	3,398,005,243.21
Other operations	**152,716,659.91**	**148,080,302.64**	156,371,473.27	155,300,523.65
Total	**3,660,946,787.68**	**3,256,862,423.86**	4,084,995,744.68	3,553,305,766.86

Whether the new standard for revenue has been adopted

✓ Yes ☐ No

Information on performance obligations:

The Company as primary obligor satisfy its obligations of supplying products customers in a timely manner by reference to the category, standard and time requested by the customer in accordance with the provisions of the contracts. There are different payments terms for different customers and different products: domestic customers of tubes are normally subject to payment in advance of distribution, and domestic customers of oil casing is normally subject to payment terms of 3-6 months after bill settlement. As to export business, payment terms are mainly payment upfront. As to oil casing products, most of the customers are subject to payment in advance, under which customers are to make full payment before distribution of products. As to petroleum machinery parts, the credit term is normally 2 months.

Information on transaction price allocated to remaining performance obligations:

The corresponding revenue from performance obligations that have been contracted but not yet performed or completed amounted to RMB528,000,000.00 as at the end of the reporting period, which was expected to be recognised as revenue in 2020.

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(U e e d ca ed, a g e a e a ed RMB)

XV. Notes to principal items in the financial statements of the parent Company *(c ed)*

4. O e a ing e en e and o e a ing co *(c ed)*

Details of contract revenue:

Unit: RMB

Con ac ca ego	Pi e od c	Th ee kind of m ing ni	Pe ole m machine a	T be blank	O he	To al
Type of goods						
Including: Pipe products	3,406,637,552.17	—	—	—	—	3,406,637,552.17
Three kinds of pumping units	—	43,755,412.12	—	—	—	43,755,412.12
Petroleum machinery parts	—	—	34,536,314.66	—	—	34,536,314.66
Tube blanks	—	—	—	20,836,410.87	—	20,836,410.87
Others	—	—	—	—	155,181,097.86	155,181,097.86
By business location						
Including: China	2,802,843,307.83	42,066,844.47	—	20,836,410.87	155181088.41	3,020,927,651.58
Outside China	603,794,244.34	1,688,567.65	34,536,314.66	—	9.45	640,019,136.10
Type of contracts						
Including: Revenue recognised at a point in time	3,406,637,552.17	43,755,412.12	34,536,314.66	20,836,410.87	155,181,097.86	3,660,946,787.68
Total	3,406,637,552.17	43,755,412.12	34,536,314.66	20,836,410.87	155,181,097.86	3,660,946,787.68

5. In e men income

Unit: RMB

I em	Amo n fo he e iod	Amount for the last period
Gain from long-term equity investments accounted for using the equity method	**1,216,420.49**	—
Total	**1,216,420.49**	—

Supplementary Information on Financial Statements

1 Ja a 2019 31 Dece be 2019
(U e d ca ed, a g e a e a ed RMB)

1. Statement of extraordinary profit or loss for the period

✓ Applicable ☐ Not applicable

Unit: RMB

Item	Amount	Decision
Gain or loss on disposal of non-current assets	5,216,498.87	(1)
Government grants credited to profit for the period except for those closely relevant to normal business of the company, conformed to requirements of State policy, granted on fixed amount basis or enjoyed on continuous fixed amount basis subject to certain standards	14,032,294.31	(2)
Profit or loss arising from contingencies unrelated to the normal business operations of the Company	(29,170,030.14)	(3)
Financial assets held for trading, derivative financial assets, financial liabilities held for trading, gains or losses on fair value changes arising from derivative financial liabilities other than effective hedging business related to normal operating business of the Company, and gains on disposal of investment in financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative liabilities and other equity investments	3,490,824.04	(4)
Reversal of provision for impairment of receivable and contract assets that are individually tested for impairment	5,993,355.82	(5)
Other non-operating income and expenses other than the above	4,927,933.70	(6)
Less: Effect on income tax	2,965,641.14	(7)
Effect on minority interests	2,323,368.77	—
Total	(798,133.31)	—

(1) The gain or loss on disposal of non-current assets increased by 50.23% compared to the same period of last year, primarily attributable to the receipt of compensation for green land acquisition during the period.

(2) The government grants credited to the profit or loss for the current period decreased by 52.36% compared to the same period of last year, primarily attributable to reduction in subsidies and grants for recycling resource enterprises received during the year.

(3) The gain or loss arising from contingencies unrelated to normal operations of the Company decreased by 207.39% compared to the same period of last year, primarily attributable to the increased provision for compensations for investors' claims during the period.

(4) It was primarily attributable to the growth in investment income of 159.24% compared to the same period of last year due to the increase in return from bank wealth management.

(5) The write-back of provision for receivables and contract assets subject to individual impairment test increased by 100% compared to the same period of last year, primarily attributable to the reduction of provision rate by the Company because during the period, the Company reached and properly observed an agreement on repayment schedule for the accounts receivable subject to individual impairment test.

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(6) Non-operating income and expenses other than the above items increased by 216.24% compared to the same period of last year, primarily attributable to the transfer of the outstanding payables to non-operating income during the period.

(7) The effect on income tax decreased by 65.79% compared to the same period of last year, primarily attributable to the decrease in total non-operating profit or loss, resulting in the corresponding reduction in effect on non-operating income tax.

Reasons should be given if the Company has classified any non-recurring profit and loss items (as defined and listed in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — non-recurring Profit and Loss) as recurring gain and loss items.

☐ Applicable ✓ Not applicable

2. Return on net assets and earnings per share

P ok fo he e o ing e iod	Weigh ed a e age e n on ne a e	Ea ning e ha e	
		Ba ic (RMB/ Sha e)	Dil ed (RMB/ Sha e)
Net profit attributable to ordinary shareholders of the Company	–10.63%	(0.246)	(0.246)
Net profit attributable to ordinary shareholders of the Company after extraordinary profit or loss	–10.59%	(0.245)	(0.245)

It was calculated based on Article 4 "Companies should calculate basic earnings per share by dividing net profit for the period attributable to ordinary shareholders by weighted average number of ordinary shares in issue" under ASBE 34 "earnings per share".

3. Difference in accounting data under domestic and overseas accounting standards

(1) Diffe ence in ne ofi and ne a e in financial a emen a di clo ed in acco dance i h IAS and PRC GAAP

☐ Applicable ✓ Not applicable

(2) Diffe ence in ne ok and ne a e in he nancial a emen a di clo ed nde he o e ea acco n ing anda d and PRC GAAP

☐ Applicable ✓ Not applicable

(3) Rea on( ) fo acco n ing diffe ence be een dome ic and in e na ional acco n ing anda d ; if adj men ha been made o da a a di ed b o e ea a di m, ecif he name of he o e ea a di m

☐ Applicable ✓ Not applicable

XIII. Documents Available for Inspection

(1) The financial statements which were signed and sealed by the responsible person, chief accountant and head of accounting department (person in charge of accounting matters) of the Company.

(2) The original copy of the auditors' report which was sealed by the accounting firm and signed by a certified public accountant.

(3) Announcements and documents disclosed in the cninfo.com during the reporting period.

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