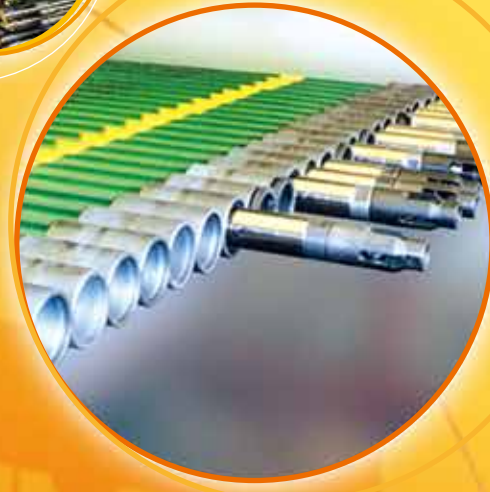




山東墨龍石油機械股份有限公司

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)



2020
Annual
Report

I. Important, Contents and Definitions



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 the Annual Report, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

Yang Yun Long, the legal representative of the Company, Liu Min, the person in charge of accounting department and Zhang Xue Mei, the head of the accounting department, declare that they guarantee the truthfulness, accuracy and completeness of the financial statements in the Annual Report.

All Directors attended the Board meeting for considering this report.

This report involves forward-looking statements about future plans, which do not constitute actual commitments to investors by the Company. Investors and the parties concerned should maintain sufficient knowledge of the underlying risks and understand the differences among plans, projections and commitments. Investors are advised to make themselves aware of the risks associated with investment.

The Company has described in detail the potential risks in the section headed "Discussion and Analysis of Operations" in Section IV of this report. Investors are advised to read carefully the contents thereof.

The Company does not propose any payment of cash dividends or any issue of bonus shares or any transfer of reserve to capital.

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I. Important, Contents and Definitions

Definitions

Term	Definition
“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
“Listing Rules”	The Rules Governing the Listing of Securities on 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.)
“Molong Equipment”	壽光墨龍機電設備有限公司 (Shouguang Molong Electro-mechanical Equipment Company Limited)
“Baolong Consultancy”	壽光市寶隆管理諮詢有限公司 (Shouguang Baolong Management and Consultancy Co., Ltd.)
“Shouguang Jinxin”	山東壽光金鑫投資發展控股集團有限公司 (Shandong Shouguang Jinxin Investment Development Holdings Group Limited)
“Shouguang SAB”	State-owned Assets Supervision and Administration Bureau of Shouguang City (壽光市國有資產監督管理局)
“Molong Holdings”	壽光墨龍控股有限公司 (Shouguang Molong Holdings Co., Ltd.)
“reporting period”	1 January 2020 to 31 December 2020
“RMB”, “RMB thousand”, “RMB ten thousand”	Renminbi, thousand Renminbi, ten thousand Renminbi

II. Company Profile 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	Yang Yun Long		
Registered Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province		
Postal Code of Registered Address	262700		
Office Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province		
Postal Code of Office Address	262700		
Website of the Company	https://www.molonggroup.com		
Email Address	dsh@molonggroup.com		

II. Contact Persons and Contact Information

Secretary to the Board

Name	Zhao Xiao Tong
Contact Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Telephone	0536-5100890
Facsimile	0536-5100888
Email Address	dsh@molonggroup.com

III. Information Disclosure and Places for Inspection

Designated Newspapers for Information Disclosure	China Securities Journal, Shanghai Securities News, 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 Office of the Company



II. Company Profile and Key Financial Indicators

IV. Registry Changes

Organisation No.	No change
Changes in principal operations since the Company's listing	No change
All changes in controlling shareholders	On 28 September 2020, Zhang En Rong, the original controlling shareholder and actual controller of the Company, and Shandong Shouguang Jinxin Investment Development Holdings Group Limited entered into the Voting Rights Nomination Agreement between Shandong Shouguang Jinxin Investment Development Holdings Group Limited and Zhang En Rong on the 29.53% Share of Shandong Molong Petroleum Machinery Company Limited. Pursuant to which, Zhang En Rong nominated Shouguang Jinxin to exercise all the voting rights corresponding to 235,617,000 shares of the Company held by him (accounting for 29.53% of the total share capital of the listed company). The controlling shareholder of the Company has changed to Shouguang Jinxin, and the actual controller of the Company has changed to the State-owned Assets Supervision and Administration Bureau of Shouguang City.

V. Other Relevant Information

Accounting firm engaged by the Company

Name of the accounting firm	ShineWing Certified Public Accountants
Office address of the accounting firm	9th Floor, Fuhua building A, No. 8 Chaoyangmen North Street, Dongcheng District, Beijing
Name of the signing certified public accountants	Kan Jing Ping, Zhang Chao

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

II. Company Profile and Key Financial Indicators



VI. Key Accounting Data and Financial Indicators

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

Yes No

	2020	2019	Year-on-year increase/decrease	2018
Operating revenue (RMB)	3,009,719,029.66	4,388,904,215.91	-31.42%	4,452,014,810.12
Net profit attributable to shareholders of listed company (RMB)	32,178,630.99	(196,309,267.90)	116.39%	92,476,375.01
Net profit after extraordinary gains or losses attributable to shareholders of listed company (RMB)	(266,995,839.08)	(195,511,134.59)	-36.56%	76,871,118.68
Net cash flows generated from operating activities (RMB)	206,901,178.06	688,353,418.08	-69.94%	369,589,596.32
Basic earnings per Share (RMB/share)	0.04	(0.25)	116.00%	0.1159
Diluted earnings per Share (RMB/share)	0.04	(0.25)	116.00%	0.1159
Weighted average rate of return on net assets	1.82%	-10.63%	12.45%	4.82%
	As at the end of 2020	As at the end of 2019	Year-on-year increase/decrease	As at the end of 2018
Total assets (RMB)	5,175,635,815.38	5,735,752,344.59	-9.77%	6,607,536,593.37
Net assets attributable to shareholders of listed company (RMB)	1,780,737,084.59	1,747,518,970.85	1.90%	1,944,091,288.19

The lower of the Company's net profit before and after deduction of extraordinary gains or losses in the latest three fiscal years is negative, and the audit report of the latest year shows that the Company's ability to continue operations is uncertain

Yes No

The lower of the net profit before and after deduction of extraordinary gains or losses is negative

Yes No

Items	2020	2019	Remark
Operating revenue (RMB)	3,009,719,029.66	4,388,904,215.91	Mainly comprised of revenue from sales of products, materials and waste
Deduction amount from operating revenue (RMB)	63,827,875.19	74,136,120.90	Mainly comprised of revenue from sales of materials and waste
Operating revenue after deduction amount (RMB)	2,945,891,154.47	4,314,768,095.01	Mainly comprised of revenue from sales of products



II. Company Profile and Key Financial Indicators

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

1. Differences in net profits and net assets in the financial statements as disclosed under the International Accounting Standards (“IASs”) and PRC Generally Accepted Accounting Principles (“PRC GAAP”)

Applicable Not applicable

During the reporting period, there were no differences in net profit and net assets in the financial statements as disclosed under the IASs and PRC GAAP.

2. Differences in net profit and net assets in the financial statements as disclosed under the overseas accounting standards and PRC GAAP

Applicable Not applicable

During the reporting period, there were no differences in net profit and net assets in the financial statements as disclosed under the overseas accounting standards and PRC GAAP.

3. Explanation of reasons for differences in accounting data under domestic and overseas accounting standards

Applicable Not applicable

VIII. Key financial indicators by quarter

Unit: RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Operating revenue	526,079,581.62	820,298,110.20	875,271,364.45	788,069,973.39
Net profit attributable to shareholders of listed company	(74,046,605.73)	(35,278,887.28)	(136,664,317.23)	278,168,441.23
Net profit after extraordinary gains or losses attributable to shareholders of listed company	(73,949,340.08)	(33,731,108.46)	(119,999,165.37)	(39,316,225.17)
Net cash flows from operating activities	(121,768,899.10)	184,236,200.40	27,666,911.37	116,766,965.39

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

Yes No

II. Company Profile and Key Financial Indicators



IX. Extraordinary gain or loss items and amounts

✓ Applicable □ Not applicable

Unit: RMB

Items	2020 Amount	2019 Amount	2018 Amount	Explanation
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	350,931,281.92	5,216,498.87	3,472,397.69	Mainly comprised of revenue from the sales of part of the land and fixtures by the Company.
Government grant recognised in current profit 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)	17,770,915.00	14,032,294.31	29,456,919.93	Mainly due to the Company's corporate support subsidies.
Profit or loss arising from contingencies unrelated to the normal operation of the Company	(25,358,236.00)	(29,170,030.14)	(9,489,704.33)	Mainly comprised of the provision for compensations for claims related to investors' litigation in the current period.
Gain or loss arising from changes in fair value of financial assets held for trading, derivative financial assets, financial liabilities held for trading and derivative financial liabilities, and disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading and derivative financial liabilities and investment income from other debt investments, other than the effective hedging business related to the normal operation of the Company	202,596.63	3,490,824.04	1,346,581.79	Mainly comprised of revenue from the Company's bank financial management products in the current period.
Write-back of provision for receivables and contract assets subject to individual impairment test	520,000.00	5,993,355.82	—	Mainly due to the Company's recovery of part of the receivables that has been separately tested for impairment.
Non-operating income and expenses other than the above items	7,138,842.29	4,927,933.70	1,558,301.01	Mainly comprised of the revenue received from breach of contract claims in the current period.
Less: Effect on income tax	51,780,307.55	2,965,641.14	8,669,151.99	—
Effect on minority interests (after tax)	250,622.22	2,323,368.77	2,070,087.77	—
Total	299,174,470.07	(798,133.31)	15,605,256.33	—



II. Company Profile and Key Financial Indicators

Reasons should be given if the Company has classified any extraordinary profit or loss items (as defined and listed in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Extraordinary Profit 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 Profit and Loss) as recurring gain and loss items during the reporting period.

III. Summary of the Company Business



I. Principal businesses of the Company during the reporting period

(I) Descriptions of the Company's principal businesses during the reporting period

During the reporting period, the Company was mainly engaged in design, research and development, processing and manufacturing, sales service and export trade of products for the energy equipment industry. The main products included petroleum-drilling machinery equipment, petroleum and natural gas transportation equipment, petroleum and natural gas exploitation equipment and major critical components and castings and forgings products. 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 80% of the Company's revenue, which was the main source of the revenue and profit 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 were pipe products, which 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 specification 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 professional teams for sales and import and export, responsible for domestic and international market research, research and development, product sales and post-sales services, respectively.

(II) Basic information of the Company's industry during the reporting period

The Company is in the energy equipment industry serving for oil, natural gas, shale gas, coal, coalbed methane, and so on. The industry is more obviously affected by changes in the economic development cycle, changes in market demand for consumption, cyclical changes in crude oil prices and cyclical changes in raw material prices. In 2020, amid the COVID-19 pandemic and the excessively volatile international oil prices, the capacity utilisation rate of domestic and overseas oilfield drilling operations declined. Petroleum companies reduced capital expenditures for upstream exploration and development, which had a greater impact on the oilfield service industry.

However, in the medium and long term, the national energy security strategies of the PRC provide strong support for the development of the oil service industry. Against the backdrop of the country's continued high external dependence on crude oil and natural gas, the goal of "stabilising oil market and increasing demand for natural gas" would not change. The white paper entitled Energy in China's New Era indicated that, oil and gas exploration and development efforts will be vigorously increased, oil and gas reserves and production will be promoted, and the quality of energy supply and the ability to ensure safety will continuously be improved. Furthermore, with the full opening up of the country's oil and gas exploration and development market, private and foreign-invested companies and different sectors would have the opportunities of investing capital into the domestic market, to bring new blood for the PRC's oil and gas exploration and development and drive the new demand for the energy equipment industry.

With the systematic promotion of the COVID-19 vaccine in the post-epidemic era, the global production and travel are expected to gradually resume. Together with the steady implementation of the US fiscal stimulus policy, the demand for oil and gas will continue to increase. The overall demand of the energy equipment industry will gradually transcend the low point and enter the recovery stage, and the domestic oil and gas exploration and development market is expected to maintain long-term stable growth.



III. Summary of the Company Business

II. Significant changes in major assets

1. Significant changes in major assets

Major asset	Description of significant change
Fixed assets	As at the end of the reporting period, fixed assets decreased by 8.53% compared to the beginning of the year, primarily attributable to the sales of part of fixtures by the Company during the current period.
Intangible assets	As at the end of the reporting period, intangible assets decreased by 11.18% compared to the beginning of the year, primarily attributable to the sales of part of the land by the Company during the current period.
Construction in progress	As at the end of the reporting period, construction in progress decreased by 86.15% compared to the beginning of the year, primarily because part of the construction in progress projects have completed and transferred to fixed assets in the current period.
Monetary funds	As at the end of the reporting period, monetary funds increased by 40.75% compared to the beginning of the year, primarily attributable to part of the proceeds received from the sale of assets at the end of the period.
Bills receivable	As at the end of the reporting period, bills receivable decreased by 35.98% compared to the beginning of the year, primarily attributable to the decline in operating revenue for the current period and corresponding decrease in trade acceptance bills received.
Receivables	As at the end of the reporting period, receivables decreased by 43.27% compared to the beginning of the year, primarily attributable to the decline in the Company's operating revenue for the current period.
Financing receivables	As at the end of the reporting period, financing receivables decreased by 65.08% compared to the beginning of the year, primarily attributable to the decline in operating revenue for the current period and corresponding decrease in bank acceptance bills received.
Loans and advances	As at the end of the reporting period, loans and advances decreased by 94.42% compared to the beginning of the year, primarily attributable to the recovery of loans granted in the previous period by subsidiaries during the current period and provision of impairment.
Prepayments	As at the end of the reporting period, prepayments decreased by 39.89% compared to the beginning of the year, primarily attributable to the decrease in prepayments for materials as at the end of the reporting period.
Other receivables	As at the end of the reporting period, other receivables increased by 434.28% compared to the beginning of the year, primarily attributable to the Company's sale of assets and the inclusion of the amounts not due according to the agreement in this subject in the current period.
Right-of-use assets	As at the end of the reporting period, right-of-use assets was increased from 0 to 4,591,910.73, primarily attributable to sale-leaseback of part of the house and land during the reporting period
Other current assets	As at the end of the reporting period, other current assets decreased by 37.78% compared to the beginning of the year, primarily attributable to the decrease in value-added tax retained as at the end of the reporting period.
Other non-current assets	As at the end of the reporting period, other non-current assets decreased by 92.43% compared to the beginning of the year, primarily attributable to the arrival of certain equipment items during the current period which were purchased by prepayments in the previous period and recovery of certain prepayments by subsidiaries.

2. Condition of major overseas assets

Applicable Not applicable

III. Summary of the Company Business



III. Analysis of core competitiveness

1. Strength in technological research and development and innovation

The Company has strong R&D capabilities in the field of special equipment for energy equipment, and has undertaken more than 70 national and provincial-level related scientific research projects. We are the leading enterprises in China's energy equipment base with Shandong Provincial Enterprise Technology Center, Shandong Petroleum Special Pipe Engineering Technology Research Center, and National Accreditation Laboratory and Weifang Petroleum Machinery Engineering Technology Research Center and other innovation platforms in place. The Company has built a professional and stable scientific research team through independent training, introduction of talents, and cooperation with universities and research institutes, which is creating the enterprises-based and market-oriented technology innovation system with in-depth integration of production, education and research.

2. Strength in product quality

The Company attaches importance to management of product quality. The Company is well-equipped with inspection and monitoring equipment. The Company has long been accredited ISO9001 international quality system certification, ISO14001 environmental management system certification and OHSAS18001 occupational health and safety management system certification and passed the QES management system follow-up re-certification. 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 field 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. Strength in marketing

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, oil and gas companies such as PetroChina, Sinopec, CNOOC and Yanchang Petroleum. The major overseas markets are countries and regions including the Middle East, Mexico, Canada, Russia, North Africa. The Company's marketing team consists of talents who are professionals in international trade and marketing and have relatively extensive experience and strong business competence, which allows the Company to enjoy, to a certain extent, competitive edge in marketing of energy equipment products.

4. Strength in furnace rehabilitation technology

Hismelt furnace rehabilitation technology is a furnace rehabilitation metallurgical technology of Shandong Molong which actively follows the national manufacturing transformation and upgrade, continues to develop the recycling economy and builds a green metallurgical enterprise. The Company has all the technical intellectual property rights of Hismelt, the only Hismelt industrial chemical plant in the world, rich experience in Hismelt plant operation and maintenance and strong equipment R&D and manufacturing capabilities. The Company has obtained Hismelt furnace rehabilitation technology series patents and authorizations. After the identification of scientific and technological achievements organized by the Chinese Society for Metals, Shandong Molong Hismelt furnace rehabilitation technology has reached the international leading level. The application and promotion of Hismelt furnace rehabilitation technology is expected to become a new profit growth point for the Company's future development.



III. Summary of the Company Business

5. Strength in new products

During the reporting period, the Company completed more than ten achievements in new product development and technological improvement in line with market demand. The bimetallic composite pipe independently developed by the Company has been used in Xinjiang oilfields to replace imported products. Our ML125V and ML110TS ultra-high-strength and high-torque casings have been successfully tested in the Southwest Oil and Gas Field. We have signed a technical agreement with the Tarim Oilfield in South Xinjiang regarding the 140HC ultra-high steel grade, high anti-collapse casings. The new anti-leakage oil pumps, dual plunger anti-scaling oil pumps, and traveling barrel anti-scaling oil pumps have been successfully run in the Daqing Oilfield. High value-added pipe products including the seamless steel pipes for axles, hydraulic strut pipes and cold-drawing seamless steel pipes have been supplied to customers in batches.

6. Strength in brand 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.

IV. Discussion and Analysis of Operations



I. Overview

During the reporting period, the global spread of COVID-19 hit the ordinary economic activities in all industries at different levels. The energy equipment manufacturing industry where the Company operates was hard hit by the pandemic in particular. As affected by the pandemic and the excessively volatile international oil prices, the capacity utilisation rate of domestic and overseas oilfield drilling operations declined. Petroleum companies reduced capital expenditure for upstream exploration and development, which had a greater impact on the energy equipment manufacturing industry.

During the reporting period, the Company faced a tough development landscape domestically and internationally. In 2020, the Company's orders from the oilfield market dropped significantly, of which the production and sales of pipe products decreased sharply. At the same time, the prices of the relevant products continuously decreased due to the decline in downstream demand of relevant product price, while the prices of major raw materials increased significantly compared with last year, the operating revenue and gross profit margin of the Company have fallen substantially and the profitability of the Company has decreased.

To address the pressure and challenges brought about by various uncertainties, management of the Company took active steps in adjusting business strategies to prioritising the stabilisation of the partnership with long-term and quality customers, initiating adjustment in product mix and further developing the castings and forgings market. During the reporting period, the Company proactively broadened the applications and sales of pipe products, which enabled an effective integration between, and a positive adjustment in sales of, the Oil Country Tubular Goods (OCTG) products and the other social pipes markets. By capitalising on the market demand, the Company achieved new products development and more than ten items of craftsmanship improvement, as well as vigorously developed high value-added products. With greater effort placed in promotion, the Company achieved a further increase in the production and sales volumes of high-end castings and forgings, with a significant year-on-year growth in operating revenue. In order to optimise the production plan and achieve intensified production management, the Company sold out part of the land and fixtures, realizing a revenue of approximately RMB353 million (which constitutes a non-recurring profit and loss item).

At the end of the reporting period, the Company's total assets were RMB5.176 billion, with a year-on-year decrease of 9.77%. The net assets attributable to shareholders of the listed company were RMB1.781 billion, with a year-on-year increase of 1.90%. The debt-to-assets ratio was 65.19%, with a year-on-year decrease of 3.62 percentage points. During the reporting period, the Company achieved an operating income of RMB3.010 billion, with a year-on-year decrease of 31.42%. Net profits attributable to shareholders of the listed company was RMB32,178,630.99, representing an increase of RMB228,487,898.89 as compared to the corresponding period of last year.



IV. Discussion and Analysis of Operations

II. Analysis of principal businesses

1. Overview

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

2. Revenue and cost

(1) Composition of operating revenue

Unit: RMB

	2020		2019		Year-on-year increase/ decrease
	Amount	Percentage of operating revenue	Amount	Percentage of operating revenue	
Total operating revenue	3,009,719,029.66	100.00%	4,388,904,215.91	100.00%	-31.42%
By industry					
Special equipment manufacturing	3,009,719,029.66	100.00%	4,388,904,215.91	100.00%	-31.42%
By product					
Pipe products	2,458,265,692.32	81.68%	3,456,742,513.39	78.76%	-28.88%
Three kinds of pumping units	40,046,101.68	1.33%	43,755,412.12	1.00%	-8.48%
Petroleum machinery parts	8,346,558.77	0.28%	34,536,314.66	0.79%	-75.83%
Tube blanks	178,497,433.73	5.93%	699,060,843.61	15.93%	-74.47%
High-end castings and forgings	241,350,397.49	8.02%	59,767,421.27	1.36%	303.82%
Others	83,212,845.67	2.76%	95,041,710.86	2.16%	-12.45%
By region					
Within China	2,717,360,137.40	90.29%	3,724,722,383.35	84.87%	-27.05%
Outside China	292,358,892.26	9.71%	664,181,832.56	15.13%	-55.98%

IV. Discussion and Analysis of Operations



(2) Industries, products or regions that accounted for over 10% of the Company's operating revenue or operating profits

✓ Applicable Not applicable

Unit: RMB

	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin
By industry						
Special equipment manufacturing	2,699,616,089.81	2,594,555,233.81	3.89%	-23.23%	-18.03%	-6.09%
By product						
Pipe products	2,458,265,692.32	2,364,201,945.42	3.83%	-28.88%	-23.98%	-6.20%
High-end castings and forgings	241,350,397.49	230,353,288.39	4.56%	303.82%	316.90%	-2.99%
By region						
Within China	2,418,225,438.22	2,358,765,301.40	2.46%	-16.29%	-10.50%	-6.31%
Outside China	281,390,651.59	235,789,932.41	16.21%	-55.17%	-55.50%	0.62%

After adjustments were made to the data statistical caliber of the Company's principal businesses in the reporting period, the data of the Company's principal businesses for the most recent 1 year as adjusted based on the caliber at the end of the reporting period

✓ Applicable Not applicable

Unit: RMB

	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin
By industry						
Special equipment manufacturing	4,215,570,778.27	3,879,062,349.30	7.98%	-0.19%	9.35%	-8.03%
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%
High-end castings and forgings	59,767,421.27	55,254,110.41	7.55%	596.97%	798.28%	-20.72%
By region						
Within China	3,587,852,343.58	3,349,194,326.59	6.65%	-8.40%	2.81%	-10.18%
Outside China	627,718,434.69	529,868,022.71	15.59%	104.59%	83.04%	9.94%



IV. Discussion and Analysis of Operations

Reason(s) for the change of caliber

Regarding the product classification, the production and sales volumes of the Company's pipe products dropped in 2020 due to the pandemic. In light of this, management of the Company took active steps in adjusting business strategies, initiating adjustment to product mix, further developing the castings and forgings market, and increasing effort in the promotion of high-end castings and forgings. The production and sales volumes of high-end castings and forgings were therefore further increased. During the reporting period, high-end castings and forgings accounted for 8.02% of operating revenue and 19.65% of segment operating profit. These percentages reached the requirements for separate presentation and disclosure. During the reporting period, there were no changes in the calibers of industry and region classifications.

(3) Whether the Company's revenue from sales of physical goods is more than income from the provision of labour services

Yes No

Industry type	Item	Unit	2020	2019	Year-on-year increase/decrease
Special equipment manufacturing	Sales volume	Ten thousand tonnes	62.7	87.49	-28.33%
	Production volume	Ten thousand tonnes	58.16	88.03	-33.93%
	Stock volume	Ten thousand tonnes	6.16	10.7	-42.43%

Reason(s) for year-on-year changes of over 30% in the underlying data

Applicable Not applicable

In 2020, the Company's sales volume and production volume decreased by 28.33% and 33.93% respectively compared with the same period last year. Such decreases were primarily attributable to the impact of the pandemic during the current period under which international crude oil prices fluctuated significantly, the demand of domestic and overseas oilfields weakened, resulting the significant decrease in the orders, sales volume and production volume.

(4) Performance of the contracted material sales contract of the Company at the end of the reporting period

Applicable Not applicable

IV. Discussion and Analysis of Operations



(5) Composition of operating cost

By product

Unit: RMB

Product type	Item	2020		2019		Year-on-year increase/decrease
		Amount	Percentage to operating cost	Amount	Percentage to operating cost	
Pipe products	Materials	1,679,292,641.83	71.03%	2,201,630,805.26	70.79%	-23.73%
Pipe products	Depreciation	165,966,976.57	7.02%	229,524,443.32	7.38%	-27.69%
Pipe products	Labour cost	176,133,044.93	7.45%	233,567,556.82	7.51%	-24.59%
Pipe products	Expenses	342,809,282.09	14.50%	445,364,502.49	14.32%	-23.03%
Three kinds of pumping units	Materials	24,813,408.06	66.94%	24,901,997.04	66.21%	-0.36%
Three kinds of pumping units	Depreciation	2,846,832.60	7.68%	2,933,629.01	7.80%	-2.96%
Three kinds of pumping units	Labour cost	6,983,636.21	18.84%	7,349,116.78	19.54%	-4.97%
Three kinds of pumping units	Expenses	2,424,255.88	6.54%	2,425,885.53	6.45%	-0.07%
Petroleum machinery parts	Materials	5,342,853.06	71.30%	20,566,510.74	70.91%	-74.02%
Petroleum machinery parts	Depreciation	687,901.70	9.18%	2,671,239.09	9.21%	-74.25%
Petroleum machinery parts	Labour cost	1,040,844.73	13.89%	4,089,519.13	14.10%	-74.55%
Petroleum machinery parts	Expenses	421,883.07	5.63%	1,676,412.81	5.78%	-74.83%
Tube blanks	Materials	165,074,534.75	87.93%	594,886,395.99	83.35%	-72.25%
Tube blanks	Depreciation	4,580,710.39	2.44%	24,409,255.84	3.42%	-81.23%
Tube blanks	Labour cost	5,050,045.47	2.69%	21,268,883.74	2.98%	-76.26%
Tube blanks	Expenses	13,028,741.85	6.94%	73,156,395.43	10.25%	-82.19%
High-end castings and forgings	Materials	197,942,580.71	85.93%	46,092,978.90	83.42%	329.44%
High-end castings and forgings	Depreciation	10,826,604.55	4.70%	2,829,010.45	5.12%	282.70%
High-end castings and forgings	Labour cost	3,708,687.95	1.61%	1,016,675.63	1.84%	264.79%
High-end castings and forgings	Expenses	17,875,415.18	7.76%	5,315,445.42	9.62%	236.29%
Others	Materials	49,501,171.87	65.49%	55,452,799.30	62.34%	-10.73%
Others	Depreciation	9,077,860.35	12.01%	11,417,968.94	12.84%	-20.49%
Others	Labour cost	13,794,417.26	18.25%	19,575,112.39	22.01%	-29.53%
Others	Expenses	3,212,398.55	4.25%	2,500,205.22	2.81%	28.49%

Note

Raw materials accounted for the most significant part of the Company's cost of products, and the major raw material of the Company are tube blanks, scrap steel and mineral fines.



IV. Discussion and Analysis of Operations

(6) Whether consolidation scope changed during the reporting period

Yes No

“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.)” were removed from the consolidation scope of the Company for the reporting period.

On 29 October 2019, the Company held the fifth meeting of the sixth session of the Board, at which the “Resolution on the Deregistration of Wholly-owned Subsidiaries” was passed, which proposed to conduct centralized disposal 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 of deregistration approval from the Administrative Examination and Approval Service Bureau under the Administration for Market Regulation of Wendeng District of Weihai City, notifying 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 notifying that the deregistration procedures for Maolong Recycle were completed (Announcement number 2019-033 and 2020-002).

The above two subsidiaries are no longer included in the consolidation scope during the reporting period.

(7) Information related to significant change or adjustment of the Company’s business, product or service during the reporting period

Applicable Not applicable

IV. Discussion and Analysis of Operations



(8) Information on major customers and major suppliers

Information on the major customers of the Company

Total sales of the top 5 customers (RMB)	1,178,769,045.03
Proportion of total sales of the top 5 customers over total sales for the year	39.16%
Proportion of sales of connected parties in the top 5 customers over total sales for the year	0.00%

Information on the Company's top 5 customers

No.	Name of customer	Sales amount (RMB)	Percentage to the annual total sales amount
1	Entity 1	308,537,099.03	10.25%
2	Entity 2	286,915,574.10	9.53%
3	Entity 3	230,067,750.90	7.64%
4	Entity 4	185,920,768.90	6.18%
5	Entity 5	167,327,852.10	5.56%
Total	—	1,178,769,045.03	39.16%

Particulars of the major customers

Applicable Not applicable

Information on the major suppliers of the Company

Total purchase attributable to the top 5 suppliers (RMB)	808,455,784.72
Proportion of total purchases attributable to the top 5 suppliers over total purchases for the year	32.57%
Proportion of purchases of connected parties in the top 5 suppliers over total purchases for the year	0.00%



IV. Discussion and Analysis of Operations

Information on the Company's top 5 suppliers

No.	Name of the supplier	Purchases amount (RMB)	Percentage to the annual total purchase amount
1	Entity 1	248,002,143.15	9.99%
2	Entity 2	235,887,382.86	9.50%
3	Entity 3	118,793,196.19	4.79%
4	Entity 4	115,479,637.84	4.65%
5	Entity 5	90,293,424.68	3.64%
Total	—	808,455,784.72	32.57%

Particulars of the major suppliers

Applicable Not applicable

3. Expenses

Unit: RMB

	2020	2019	Year-on-year increase/ decrease	Description of significant change
Selling expenses	14,948,332.92	84,340,449.53	-82.28%	During the reporting period, the sales of products in the oilfield market declined, resulting in a year-on-year decrease in the Company's freight; the Company included the freight and miscellaneous expenses incurred before transferring the control right of products to the buyer in operating costs in accordance with the revenue standards in the current period, which resulted in a large year-on-year decrease in selling expenses.
Administrative expenses	194,470,836.86	193,606,016.95	0.45%	No significant change
Finance expenses	159,212,583.52	146,326,178.28	8.81%	No significant change
Research and development expenditures	52,542,810.96	63,830,329.90	-17.68%	No significant change



4. Investments in research and development

✓ 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 specifically 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 finalised.

Expenditure on the research phase is recognized in profits 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 satisfied:

- (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, financial 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 profit or loss in the current 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 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

Research and development expenditures of the Company

	2020	2019	Percentage change
Number of research and development personnel	327	358	-8.66%
Proportion of research and development personnel	11.31%	11.15%	0.16%
Amount of research and development expenditures (RMB)	53,013,350.91	67,212,847.28	-21.13%
Percentage of research and development expenditures to operating revenue	1.76%	1.53%	0.23%
Amount of capitalised research and development expenditures (RMB)	8,225,125.47	10,864,448.29	-24.29%
Percentage of capitalised research and development expenditures to research and development expenditures	15.52%	16.16%	-0.64%

Reason for significant changes in the proportion of total research and development expenditures to operating revenue when compared with last year

Applicable Not Applicable

Reason and rationality explain for significant changes in capitalised research and development expenditures rate

Applicable Not Applicable

5. Cash flows

Unit: RMB

Item	2020	2019	Year-on-year increase/decrease
Subtotal of cash inflows from operating activities	3,404,156,862.00	4,795,671,135.13	-29.02%
Subtotal of cash outflows from operating activities	3,197,255,683.94	4,107,317,717.05	-22.16%
Net cash flows generated from operating activities	206,901,178.06	688,353,418.08	-69.94%
Subtotal of cash inflows from investing activities	359,686,419.62	118,365,023.70	203.88%
Subtotal of cash outflows from investing activities	45,411,071.25	77,287,258.35	-41.24%
Net cash flows generated from investing activities	314,275,348.37	41,077,765.35	665.07%
Subtotal of cash inflows from financing activities	2,852,941,196.24	3,178,031,000.00	-10.23%
Subtotal of cash outflows from financing activities	3,159,078,404.30	3,995,278,611.23	-20.93%
Net cash flow generated from financing activities	(306,137,208.06)	(817,247,611.23)	62.54%
Net increase in cash and cash equivalents	203,732,360.30	(82,667,646.02)	346.45%

IV. Discussion and Analysis of Operations



Explanations on main effects of significant changes in related data over the same period of last year

Applicable Not Applicable

- (1) Net cash flows generated from operating activities decreased by 69.94% compared with the same period of last year, mainly attributable to the impact of the pandemic during the current period under which international crude oil prices fluctuated significantly and the demand of domestic and overseas oilfields weakened, resulting the decrease in the Company's operating revenue.
- (2) Net cash flows generated from investing activities increased by 665.07% compared with the same period of last year, mainly attributable to the cash received from disposal of part of the assets in the current period.
- (3) Net cash flows generated from financing activities increased by 62.54 % compared with the same period of last year, mainly attributable to the decrease in cash paid for debts in the current period.

Explanation on main reasons for the material difference between net cash flows from operating activities during the reporting period and net profit 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 profit, the reasons of which was mainly due to the combined effects of the gains on disposal assets by the Company during the reporting period and depreciation of fixed assets, amortisation of intangible assets, the relatively significant amount of finance expenses and decrease in inventories during the reporting period.



IV. Discussion and Analysis of Operations

III. Analysis of non-principal businesses

Applicable Not Applicable

Unit: RMB

	Amount	Percentage of total profit	Reason(s) for the incurrence	Is it recurring
Investment income	(39,767.09)	-0.23%	Mainly attributable to the loss of associates.	No
Impairment of assets	(1,047,770.83)	-5.98%	Mainly attributable to the provisions for impairment of inventories according to the ASBE.	No
Non-operating income	7,928,370.13	45.23%	Mainly attributable to the income on compensations of claims for default in the current period.	No
Non-operating expenses	28,574,721.15	163.02%	Mainly attributable to the provision for compensations for claims related to investors' litigation in the current period.	No
Credit impairment	1,142,033.60	6.52%	Mainly attributable to the provisions for impairment of accounts receivable, bills receivable, loans and advances and other assets pursuant to the requirements of the ASBEs.	No
Other gains	17,770,915.00	101.38%	Mainly attributable to the Company's receipts of government subsidies for enterprises.	No
Gain on disposal of assets	353,358,239.23	2,015.90%	Mainly attributable to the gains on disposal of assets by the Company in the current period.	No

IV. Discussion and Analysis of Operations



IV. Analysis of assets and liabilities

1. Significant changes in the composition of assets

The Company implemented the new revenue standard or the new lease standard for the first time since 2020 and adjusted the implementation of the relevant items of the financial statement at the beginning of the year

Not applicable

Unit: RMB

	As at the end of 2020		As at the end of 2019		Increase/ decrease in percentage	Description of the significant change(s)
	Amount	Percentage to total assets	Amount	Percentage to total assets		
Monetary funds	759,979,803.03	14.68%	539,942,128.18	9.41%	5.27%	Mainly attributable to the receipt of amounts from disposal of assets at the end of the current period.
Accounts receivable	287,920,595.28	5.56%	507,559,024.95	8.85%	-3.29%	Mainly attributable to the decline in the Company's operating revenue for the current period.
Inventories	787,377,614.78	15.21%	934,907,320.58	16.30%	-1.09%	Mainly attributable to the sales of part of the inventories in the current period.
Long-term equity investments	2,314,697.29	0.04%	2,557,061.01	0.04%	0.00%	No significant change.
Fixed assets	2,493,577,016.35	48.18%	2,726,157,716.13	47.53%	0.65%	Mainly attributable to the disposal of part of the assets by the Company.
Construction in progress	7,620,542.62	0.15%	55,034,853.27	0.96%	-0.81%	Mainly because part of the construction in progress projects was completed and transferred to fixed assets in the current period.
Short-term borrowings	2,054,225,378.29	39.69%	1,929,510,883.39	33.64%	6.05%	No significant change.
Long-term borrowings	114,063,150.53	2.20%	0.00	0.00%	2.20%	Mainly attributable to the increase in long-term financing for the current period.
Bills receivable	164,945,170.51	3.19%	257,635,279.11	4.49%	-1.30%	Mainly attributable to the decline in operating revenue for the current period and corresponding decrease in trade acceptance bills received.
Financing receivables	33,575,777.00	0.65%	96,155,523.75	1.68%	-1.03%	Mainly attributable to the decline in operating revenue for the current period and corresponding decrease in trade acceptance bills received.
Other receivables	156,486,818.72	3.02%	29,289,226.01	0.51%	2.51%	Mainly attributable to the disposal of assets by the Company and inclusion of the amounts not due according to the agreement in this subject in the current period.
Loans and advances	951,005.30	0.02%	17,046,915.97	0.30%	-0.28%	Mainly attributable to the recovery of loans granted in the previous period by subsidiaries during the current period and provisions for impairment.
Prepayments	24,755,942.84	0.48%	41,184,464.45	0.72%	-0.24%	Mainly attributable to the decrease in prepayments for material as at the end of the reporting period.
Other current assets	21,904,932.90	0.42%	35,206,341.97	0.61%	-0.19%	Mainly attributable to the decrease in value-added tax retained as at the end of the reporting period.
Intangible assets	393,688,845.70	7.61%	443,223,548.01	7.73%	-0.12%	Mainly attributable to the disposal of part of land by the Company.
Accounts payable	648,352,428.48	12.53%	924,020,613.80	16.11%	-3.58%	Mainly attributable to the reduction in accounts payable as the procurement volume decreased during the current period.
Bills payable	121,472,511.10	2.35%	281,588,603.88	4.91%	-2.56%	Mainly attributable to the reduction in bills payable as the procurement volume decreased during the current period.
Tax Payable	27,192,105.60	0.53%	13,393,461.51	0.23%	0.30%	Mainly attributable to the increase of tax paid at the end of the current period as compared to last year.
Contract liabilities	83,749,468.02	1.62%	32,463,654.22	0.57%	1.05%	Mainly attributable to the increase in receipts for goods in advance as at the end of the period.
Non-current liabilities due within one year	139,784,923.46	2.70%	482,636,906.78	8.41%	-5.71%	Mainly attributable to the decrease in long-term borrowings due within one year as at the end of the period.



IV. Discussion and Analysis of Operations

2. Assets and liabilities measured at fair value

Applicable Not Applicable

Item	Beginning amounts	Gains and losses from changes in fair value for the current period	Cumulative changes in fair value included in equity	Provision for impairment for the current period	Purchase amount for the current period	Selling amount for the current period	Other changes	Closing amounts
Financial assets								
Financing receivables	96,155,523.75	0.00	0.00	0.00	0.00	0.00	(62,579,746.75)	33,575,777.00
Total of the above	96,155,523.75	0.00	0.00	0.00	0.00	0.00	(62,579,746.75)	33,575,777.00
Financial liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Other changes

Other changes in the financing receivables are the net amount of new and due or endorsed bank acceptance bills during the current period.

During the reporting period, whether the measurement attributes of the Company's main assets have changed significantly

Yes No

3. Restrictions on asset rights as at the end of the reporting period

Item	Book value at the end of the year	Reason(s) for the restriction
Monetary funds	249,576,453.10	Security deposits
Monetary funds	326,106.55	Freeze for litigation
Bills receivable	117,520,033.97	Pledge of bills
Financing receivables	8,000,000.00	Pledge of bills
Accounts receivable	29,368,652.94	Factoring financing of accounts receivable
Fixed assets	230,351,714.63	Pledge for borrowings
Intangible assets	158,156,941.10	Pledge for borrowings
Total	793,299,902.29	—

IV. Discussion and Analysis of Operations



V. Analysis of investments

1. General

Applicable Not Applicable

2. Significant equity investments acquired during the reporting period

Applicable Not Applicable

3. Significant non-equity investments in progress during the reporting period

Applicable Not Applicable

4. Investments in financial assets

(1) Investments in securities

Applicable Not Applicable

The Company did not hold any investments in securities during the reporting period.

(2) Investments in derivatives

Applicable Not Applicable

The Company did not hold any investments in derivatives during the reporting period.

5. Use of raised funds

Applicable Not Applicable

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



IV. Discussion and Analysis of Operations

VI. Material disposals of assets and equity interests

1. Disposal of significant assets

Applicable Not Applicable

Counterparty	Assets disposed	Disposal date	Transaction price (RMB ten thousand)	period to the date of disposal (RMB ten thousand)	Impact on the Company	The proportion of the net profit contributed by the asset disposal to the total net profit of the listed company	Pricing principle for the asset disposal	Whether it is a related transaction	Related relationship with the counterparty (applicable to related transaction)	Whether the property rights of the assets involved have all been transferred	Whether all the credits and debts involved have been transferred	Whether it is implemented as planned and on schedule, if not, the reasons and the measures the Company has taken	Disclosure date	Disclosure index
Shandong Shouguang Vegetable Wholesale Market Co., Ltd. (山東壽光蔬菜批發市場有限公司)	Part of the land and fixtures	17 December 2020	50,280.8	35,329.08	It is conducive to optimizing the Company's asset structure and improving financial status. The asset disposal contributed to an increase of RMB353 million in net profit during the reporting period. The asset disposal is not continuous.	1,097.91%	Pricing based on appraised value	No	Not applicable	Yes	Yes	Yes	19 November 2020	http://www.cninfo.com.cn

2. Disposal of material equity interests

Applicable Not Applicable

VII. Analysis of major controlled and invested companies

Applicable Not Applicable

Major subsidiaries and invested companies affecting over 10% of net profit of the Company

Unit: RMB

Name of company	Type of company	Principal businesses	Registered Capital (RMB ten thousand)	Total assets	Net assets	Operating revenue	Operating profit	Net Profit
Shouguang Baolong	Subsidiary	Production and sale of oil equipment	15,000	792,230,697.97	(107,200,226.40)	1,686,441,547.74	(65,813,774.70)	(66,556,791.93)
Weihai Baolong	Subsidiary	Manufacture and sale of special oil metal materials	2,600	174,779,556.39	111,184,057.85	286,165,122.64	(35,499,844.62)	(36,267,922.21)
Shouguang Maolong	Subsidiary	Research of new materials for energy equipment; production and sale of metal castings and forgings; sea water desalination; waste heat and gas power generation.	71,238	1,450,829,719.56	348,358,964.32	1,419,210,306.59	(73,846,277.96)	(67,296,831.88)

IV. Discussion and Analysis of Operations



Acquisitions and disposals of subsidiaries during the reporting period

Applicable Not Applicable

Name of company	Method of acquisition and disposal of the subsidiary during the reporting period	Impact on overall production, operation and results
Shouguang Maolong Old Metals Recycle Co., Ltd.	Deregistration	No impact

Information on major controlled and invested companies

On 29 October 2019, the fifth meeting of the sixth session of the board of directors of the Company considered and passed a “Resolution on the Deregistration of a Wholly-owned Subsidiary” (《關於註銷全資子公司的議案》), which proposes to dispose Shouguang Maolong Old Metals Recycle Co., Ltd., a wholly-owned subsidiary of the Company, by way of liquidation and deregistration (Announcement number : 2019-029). On 18 February 2020, the Company received from Shouguang Administrative Examination and Approval Service Bureau a notice of deregistration approval, notifying that the procedures for deregistering Maolong Recycle have been completed (Announcement number: 2020-002).

VIII. Structured entities controlled by the Company

Applicable Not Applicable

IX. Prospects for future development of the Company

(I) Future development trend of the industry in which the Company operates:

In 2020, confronted with the multiple strikes such as the unexpected COVID-19 pandemic and recession of the global economy, the uncertainty in the external environment of the country's economic development has increased and downward pressure under the macro economy has constantly increased. 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. Due to the record low international oil prices resulted from the pandemic, global gas and oil companies reduced capital expenditures in succession. The capacity utilization rate of domestic and overseas oilfield drilling operations declined, which had a greater impact on the energy equipment manufacturing industry.

Since 2020, in response to changes in the epidemic situation, the PRC has adjusted its prevention and control strategies in a timely manner, improved a normalised prevention and control mechanism and achieved significant strategic results in epidemic prevention and control, and was the only major economy in the world which achieved positive economic growth. Currently, the country is striving to build a new development pattern with the domestic big cycle as the main body and the domestic and international double cycles mutually promoting each other. Driven by the country's economic background of promoting “six stability, six guarantees ” and the national energy security strategy, with the domestic economy going upward and the gradual recovery of international oil prices, the continuous increase in oil and gas demand occurred. The overall demand of the energy equipment industry will gradually transcend the low point and enter the recovery stage, and the domestic oil and gas exploration and development market is expected to maintain a long-term stable growth.



IV. Discussion and Analysis of Operations

According to the World Energy Outlook (2020 edition), fossil energy still occupies an overwhelming share in the global energy structure, providing the world with a large amount of energy indispensable for life and survival. In the long run, demand for oil and gas would still be on the rise. The national energy security strategy provides strong support for the development of the energy equipment manufacturing industry. Against the backdrop of the country's continued high external dependence on crude oil and natural gas, the goal of "stabilising oil market and increasing demand for natural gas" would not change. The white paper entitled Energy in China's New Era indicated that, oil and gas exploration and development efforts will be vigorously increased, oil and gas reserves and production will be promoted, and the quality of energy supply and the ability to ensure safety will be continuously improved. The national energy security strategy drove the increase in capital expenditure in the upstream. China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation (CNOOC) also put forward the "Seven-Year Action Plan" respectively to vigorously develop the domestic energy exploration and development business. For example, CNOOC's "Seven-Year Action Plan" clearly stated that the exploration workload and proven reserves will double by 2025.

In addition, the country has comprehensively liberalised the oil and gas exploration and development market. Private and foreign-invested enterprises and other social capitals are expected to enter the domestic oil and gas exploration and development market to inject new blood into the domestic oil and gas exploration and development, driving new demands for the energy equipment industry. With the acceleration of oil and gas production and the continuous growth of oil and gas capital expenditures, the overall demand for the energy equipment manufacturing industry will continue to expand, and the industry's prosperity is expected to further improve.

(II) Business plans of the Company for 2021:

In 2021, Shandong Molong will adhere to the general tone of making progress while remaining stable, committed to adapt to new development stage, with the main focus on promotion of high-quality corporate development. The Company will persist on a customer-centered and market-oriented approach, with a key focus on developing and selling high-end, precise and advanced new products. The Company will capitalise on its industry strengths to strengthen the research and development of technology and service capability, forming an economical, efficient, advanced and eco-friendly industry chain of energy equipment manufacturing, with an aim to become an internationally renowned energy equipment manufacturer and service provider, striving to achieve steady, sustainable and healthy development of the Company.

1. Optimise the corporate governance and facilitate the standardised operation

Shandong Molong will further complete the relevant rules and regulations according to actual needs and ensure their effective implementation; continue to optimise the corporate governance structure and improve the standardised operation level, thereby providing guarantee for the Company's high-quality development; optimise the internal control process and constantly perfect the risk prevention mechanisms, so as to guarantee healthy, stable and sustainable development of the Company.

2. Resort to the advantages of state-owned capital and seize the development opportunities

In virtue of the state-owned capital background of the controlling shareholder, the Company strives to walk ahead of the industry by way of remodeling future development strategies and take full advantages of market and technologies. The Company will persist in taking technology innovation, management innovation and market innovation as fundamental means to improve core competitiveness of enterprises, and rapidly explore the market by virtue of the advantages of new products. In order to optimise production plan and achieve intensified production management, the Company will steadily implement the consolidation of industrial parks. By accelerating the application and promotion of HISMelt reduction technology and taking full advantages of its intellectual property, HISMelt reduction technology will be a new profit growth point for the later development of the Company and will further enhance the Company's competitiveness.



3. Strengthen the basic management to promote the quality and efficiency improvement

The Company will strictly pay attention to safety, environmental protection and production management, continue to implement safety education and training for all employees, practically raise their safety awareness and pre-control safety risks in advance. The Company will also strengthen equipment operation management, strictly implement hidden danger identification and rectification and ensure stable production operations. The Company will further consolidate basic management, pay attention to product quality, and establish a good reputation for the Company. Production process management will also be practically implemented and the Company will raise the awareness of cost control, reduce costs in various aspects, so as to enhance the Company's efficiency.

4. Adhere to "market-oriented" and proactively expand the market

The Company will further subdivide performance appraisal, improve sales incentive policies and enhance team cohesion; proactively connect to customer market and prepare the tender and bidding work in the oilfield market (such as CNOOC, CNPC and Sinopec) and tube market; take full advantages of the industry, actively explore marketing channels, intensify market development and promotion for new products, especially premium thread, high-grade steel and special material products, which contribute to increase order volume and capacity of high value-added products, as well as promote the formulation of diversified product structures. The Company will also strengthen internal risk management and control training, raise risk awareness and achieve debt clearing-up management.

5. Reinforce the internal control management and reduce operation risks

The Company will further perfect and complete the internal control management system, intensify internal audit, establish efficient monitoring and inspection mechanisms, regulate the specific business process and strengthen risk-resistance ability; continue to reinforce risk control and monitoring mechanisms at all levels, so as to lower the risks of corporate operation.

6. Attach importance to technology innovation and research and development and strengthen the construction of an echelon of talents

The Company will continue to strengthen the collaboration with scientific research institutes and tertiary schools. Leveraging on the technological advantages of tertiary schools and scientific research institutes and the advanced equipment of the Company, the Company will 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. The Company will also strengthen the construction of the team of professional and technical personnel, the Company forms a professional and stable scientific research team through independent cultivation and introduction of talents, gradually establishing a technological innovation system that integrates production, education and research. The Company will also further perfect the management mechanisms on cadre appointment and talents management and gradually enhance the remuneration and labour security system, as well as further improve the overall quality of employees through business training, management training, etc., which provide human resources guarantee for the intelligent automated production.



IV. Discussion and Analysis of Operations

(III) Major risk factors for future development strategy and business goals of the Company:

(1) Market risk

The Company operates in the energy equipment manufacturing industry which is directly relevant to the development and prosperity of the energy industry. The fluctuations of crude oil price are affected by global economic growth rate, regional, political, financial, supply and demand and many other factors, and have strong cyclical and volatility. At the time when oil prices are low, oil and gas companies will reduce capital expenditures accordingly, make less investment in exploration and development 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) Raw material price fluctuation risk

Any fluctuations 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 fluctuation in raw material prices and will control the manufacturing costs of products such as by way of fixing raw material prices, adjusting the product prices and product mix in a timely manner as and when necessary.

(3) Policy risk

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 is dedicated to create an economical, efficient, advanced and environment-friendly industry chain of energy equipment manufacturing, which adheres to a green, innovative and sustainable concept, vigorously pursuing circular economy, maximizing resource utilisation, and increasing environmental protection investment to ensure the waste discharges of the Company is up to standards.

(4) Exchange rate risk

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. Activity registration form for meeting with researchers, communication and interview during the reporting period

Applicable Not Applicable

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

V. Directors' Report



The board of the Directors (the "Board") hereby presents their report and the audited financial statements of the Group for the Year.

Principal Activities

The Company was mainly engaged in design, research and development, processing and manufacturing, sales service and export trade of products for the energy equipment industry. The main products included petroleum-drilling machinery equipment, petroleum and natural gas transportation equipment, petroleum and natural gas exploitation equipment and major critical components and castings and forgings products. The details of the principal activities of the Company during the reporting period are set out in the sections headed "Summary of the Company Business" and "Discussion and Analysis of Operations" of this report. During the reporting period, there were no significant changes in the composition of the Company's principal businesses.

Results Analysis and Dividends

Analysis of the Group's principal activities for the year ended 31 December 2020 is set out in the sections headed "Discussion and Analysis of Operations" and "Financial Statement" of this annual report.

Although the Company turned losses into gains in 2020, it still has the high pressure of short-term debt repayment, large financial expenses and high gearing ratio. In accordance with the relevant requirements in the Notice on Matters in Relation to Further Implementing Cash Dividend Distribution of Listed Companies and the Regulatory Guidelines for Listed Companies No.3— Cash Dividends of Listed Companies by China Securities Regulatory Commission and the relevant provisions on profit distribution in the Articles of Association of the Company, and based on the Company's profit distribution principle of "stressing on reasonable investment returns to investors while maintaining its sustainable development, with continuity and stability maintained for its profit distribution policies", to ensure the continuous, stable and healthy development of the listed company, and better safeguard the long-term interests of all shareholders, the Company would not propose cash dividends, bonus shares or capitalization of capital reserve in 2020 after taking into account the 2021 business plan and capital needs.

The retained undistributed profits of the Company were mainly used for supplementing the liquidity required in daily operation to ensure the Company's steady development and ultimately to maximize shareholders' interests.

The Board of the Company does not recommend any payment of dividend in respect of the Year. During the year, no shareholders of the Company had waived or agreed to waive any dividend arrangements.

Key financial and business performance indicators

The key financial and business performance indicators together with details of relevant analyses on gearing ratio are shown in the sections headed "Discussion and Analysis of Operations" and "Financial Statement" of this annual report.

Risk Management

The Group's development strategy is to establish a risk management system covering all the business segments to monitor, assess and manage various risks in the Group's activities. The management has identified the major risks of the Group and conduct regular review of industry, policy, operational and currency risks.



V. Directors' Report

Sustainability Initiatives

The Group has been committed to contributing to the sustainability of the environment and maintaining a high standard of corporate 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 offices and branch premises where applicable.

The Group has compliance and risk management policies and procedures in place, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant 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 significant impact on the business and operation of the Company and its subsidiaries.

Financial Review

During the reporting period, the Company achieved operating revenue of RMB3.010 billion, representing a decline of 31.42% year-on-year. Net profit attributable to shareholders of the listed company amounted to RMB32.179 million, representing an increase of RMB228.488 million compared to RMB-196.309 million in the same period of last year. Basic earnings per share was RMB0.04 per share, representing an increase of RMB0.29 per share compared to RMB-0.25 per share in the same period of last year. The Group's financial review for the year ended 31 December 2020 is set out in the "Financial Statements" section of this annual report.

Property, Plant and Equipment

Details of changes in the property, plant and equipment of the Group for 2020 are set out in the "Financial Statements" section of this report.

Long-term Equity Investments and Fixed Assets

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

Share Capital and Share Options

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.

Pre-emptive Rights

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 a pro rata basis to existing Shareholders.



Repurchase, Sale or Redemption of Securities

None of the Company or any of its subsidiaries has repurchased, sold or redeemed any listed securities of the Group as of 2020.

Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group for 2020 are set out in the "Undistributed Profits" subsection of note (VII) to the Financial Statements.

Major Customers and Suppliers

During the year under review, sales to the Group's five largest customers accounted for approximately 39.16 % of the Group's total sales for the Year. Of which, sales to the largest customer accounted for approximately 10.25% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 32.57 % of the Group's total purchases for the Year. Of which, purchases from the largest supplier accounted for approximately 9.99% of the Group's total purchases.

To the best knowledge of the Directors, none of the Directors nor any of their close associates, or any existing shareholders (who own more than 5% of the Company's issued share capital), had any interest in the Group's five largest customers or suppliers.

Environmental, Social and Governance Report and Social responsibility

The environmental protection policies adopted by the Group and the fulfillment of social responsibilities are set out in the "Social Responsibility Report" of the "Material Matters" section of this annual report. The environmental, social and governance report required by the Hong Kong listing rules will be published separately by the Company before 29 June 2021.

Employees

Details of employees and remuneration policy of the Group are set out in the section head "Directors, Supervisors, Senior Management and Employees" of this annual report.

Donations

The Company paid great attention to the creation of social value and placed our focus of fulfilling 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 RMB16.5 ten thousand on charitable donations and financial assistance to staff in need.



V. Directors' Report

Directors

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

Executive Directors:

Mr. Yang Yun Long
Mr. Yuan Rui
Mr. Liu Min
Mr. Li Zhi Xin

Non-executive Directors:

Mr. Yao You Ling
Mr. Wang Quan Hong

Independent non-executive Directors:

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

Supervisors:

Mr. Wei Zhao Qiang
Mr. Wang Ming Hua
Mr. Liu Bo

The biographical details of the Directors are set out in the section head "Directors, Supervisors, Senior Management and Employees" of this annual report.

Directors' and Supervisors' Service Contracts or Letters of Appointment

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. 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.

Remuneration of the Directors and Supervisors and Five Highest Paid Individuals

For the information on the remuneration of the Directors, Supervisors and five highest paid individuals of the Company in 2020, please refer to "Compensation of Key Management Personnel" in the "Financial Statements" section of this report.



Directors' and Supervisors' Interests in Contracts

There are no contracts which are significant to the Group's business and in which any of the Directors or Supervisors have or had material interest, whether directly or indirectly, subsisted during 2020 or at the end of 2020.

Directors' and Executive's Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and executives in respect of legal actions against them. Throughout 2020, no claim had been made against the Directors and the officers of the Company. Except as disclosed in this report, there are no permitted indemnity provisions for the year ended 31 December 2020.

Management Contract

Except for the employment contract for employees, no contract was entered into or existed for the management and administration of all or any significant part of the Company's business for the year ended 31 December 2020.

Directors', Supervisors' and Chief Executive's Interests in Securities under the Securities and Futures Ordinance ("SFO") of Hong Kong

As at 31 December 2020, 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 SFO), which were required to be notified 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 notified to the Company and to the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered capital
Liu Yun Long	Beneficial interest	2,500	0.00%	0.00%
Wang Quan Hong	Beneficial 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 notified 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 notified to the Company and to the Stock Exchange.



V. Directors' Report

Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined 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 2020.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2020, to the best knowledge of the Directors, Supervisors and chief executive of the Company, 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 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:

Long positions in the shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered capital
Zhang En Rong	Beneficial interest	235,617,000	43.49%	29.53%
Zhang Yun San	Beneficial interest	23,108,000	4.27%	2.90%

Name	Type of interest	Number of H shares	Percentage of H shares	Percentage of total registered capital
Zhang Yun San	Beneficial interest	9,060,400	3.54%	1.14%

Note: As at 31 December 2020, Zhang En Rong is the controlling shareholder of the Company. He is the father of Zhang Yun San. The Company is not aware of any relationship between the other shareholders of the Company or whether such shareholders are parties to any concerted action.

Related Party and Related Party Transactions

For the Company's related parties, please refer to the relevant information set out in the section of "Related Party and Related Party Transactions" under "Financial Statements" of this report.

V. Directors' Report



To support the operation and development of the Company and reduce the finance costs, Shandong Shouguang Jinxin Investment Development Holdings Group Limited, the controlling shareholder of the Company, provided financial support of no more than RMB350 million to the Company after the approval at the fifth extraordinary meeting of the sixth session of the Board of the Company and the 2020 first extraordinary general meeting with reference to the market interest rate. The Company is not required to provide any form of security such as guarantees, mortgages and pledges for the financial support.

Except for the above matters, the Company has no other related transactions, and none of the related party transactions disclosed in the "Financial Statements" of this report constitutes a related transaction that need to be disclosed as defined by the Listing Rules. The Company confirmed that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules.

Competition and Conflict of Interests

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses (as defined in the Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or has any other conflict of interests with the Group during the Year.

Corporate Governance

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2020. To the best knowledge of the Directors, the Company has fulfilled the public float requirements under Rule 8.08 of the Listing Rules.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 17 May 2021 to Friday, 21 May 2021, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 14 May 2021.

Auditors

The Company has appointed ShineWing Certified Public Accountants as the auditor of the Company. ShineWing Certified Public Accountants will retire and a resolution for its re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company. There has been no change in the Company's auditors in the past three years.



V. Directors' Report

Events after the Reporting Period

As disclosed in the Company's announcement dated 23 February 2021, Mr. Zhang En Rong and Shouguang Molong Holdings Co., Ltd. (a direct wholly-owned subsidiary of Shandong Shouguang Jinxin Investment Development Holdings Group Limited ("Shouguang Jinxin"), "Molong Holdings") entered into an Share Transfer Agreement on 23 February 2021, pursuant to which Mr. Zhang En Rong transferred 235,617,000 A shares of the Company (the "Target Shares") to Molong Holdings and Molong Holdings agreed to receive the Target Shares according to the terms and conditions stipulated in the Share Transfer Agreement ("Share Transfer"). The consideration for the Share Transfer is RMB3.50 per A share, with a total consideration of RMB824,659,500. On 24 March 2021, the Company received the Confirmation of Securities Transfer Registration issued by China Securities Depository and Clearing Corporation Limited from Molong Holdings and was informed that the registration formalities in relation to the Share Transfer Agreement were completed on 23 March 2021. After the completion of the Share Transfer, Molong Holdings beneficially holds 235,617,000 A shares of the Company, representing 29.53% of the total share capital in issue of the Company, and Mr. Zhang En Rong no longer holds any shares of the Company.

Save for the above-mentioned events subsequent to the balance sheet date and the information disclosed above, the Group had no other substantial events.

On behalf of the Board
Shandong Molong Petroleum Machinery Company Limited
Chairman
Yang Yun Long

Shandong, the PRC, 26 March 2021

VI. Material Matters



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

Profit 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.

Cash dividend of the ordinary shares for the last three years (the reporting period inclusive)

Unit: RMB

Year of distribution	Amount of cash dividends (including tax)	Net profit attributable to ordinary shareholders of the listed Company per consolidated statement for the year of distribution	Percentage of amount of cash dividends to net profit attributable to ordinary shareholders of the listed company per consolidated statements	Amount of cash dividends in other forms (such as repurchases of shares)	Percentage of amount cash dividends in other forms to net profit attributable to ordinary shareholders of the listed company per consolidated statements	Amount of cash dividends (including other forms)	Percentage of amount of cash dividends (including other forms) to net profit attributable to ordinary shareholders of the listed company per consolidated statements
2020	0.00	32,178,630.99	0.00%	0.00	0.00%	0.00	0.00%
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%

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

Applicable Not applicable



VI. Material Matters

The reason for no cash dividend distribution proposal was presented although there were positive profit generated by the Company and profits generated by the parent company distributable for ordinary shareholders during the reporting period

During the reporting period, the Company achieved net profits attributable to shareholders of the listed company of RMB32,178,630.99, undistributed profits attributable to shareholders of the listed company of RMB-66,030,056.80, of which distributable profit of the parent company amounted to RMB686,906,157.86. Although the Company turned losses into gains in 2020, it still has the high pressure of short-term debt repayment, large financial expenses and high gearing ratio.

In accordance with the relevant requirements in the Notice on Matters in Relation to Further Implementing Cash Dividend Distribution of Listed Companies and the Regulatory Guidelines for Listed Companies No. 3 — Cash Dividends of Listed Companies by China Securities Regulatory Commission and the relevant provisions on profit distribution in the Articles of Association, and based on the Company's profit distribution principle of "stressing on reasonable investment returns to investors while maintaining its sustainable development, with continuity and stability maintained for its profit distribution policies", to ensure the continuous, stable and healthy development of the listed company, and better safeguard the long-term interests of all shareholders, the Company would not propose cash dividends, bonus shares or capitalization of capital reserve in 2020 after taking into account the 2021 business plan and capital needs and approval by the tenth meeting of the sixth session of the Board of the Company.

The purpose and use plan of the Company's undistributed profits

The retained undistributed profits of the Company were mainly used for supplementing the liquidity required in daily operation to ensure the Company's steady development and ultimately to maximize shareholders' interests.

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. Undertakings made by parties involved in undertakings including the Company's beneficial controllers, shareholders, related parties, bidders and the Company during the reporting period or prior periods but subsisting to the end of the reporting period

Applicable Not applicable

During the reporting period, there was no undertaking made by parties involved in undertakings including the Company's beneficial 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. Corporate assets or project has profit forecast, and still in the period of the profit forecast at reporting period. Explanation for profit forecast of corporate assets or project receives profit forecast its reasons

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.



VI. Material Matters

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

Applicable Not applicable

Compared with the last year, two subsidiaries of Wendeng Baolong Recyclable Resource Co., Ltd. and Shouguang Maolong Old Metals Recycle Co., Ltd. were reduced due to the deregistration this year.

On 29 October 2019, the fifth meeting of the sixth session of the board of directors of the Company considered and passed a "Resolution on the Deregistration of Wholly-owned Subsidiaries" (《關於註銷全資子公司的議案》), which proposed to conduct centralized disposal of Shouguang Maolong Old Metals Recycle Co., Ltd. and Wendeng Baolong Recyclable Resource Co., Ltd., wholly-owned subsidiaries of the Company, by way of liquidation and deregistration (Announcement number : 2019-029).

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

IX. Appointment, dismissal of accounting firm

The accounting firm currently appointed

Name of the domestic accounting firm	Shinewing Certified Public Accountants
Compensation of the domestic accounting firm (Unit: RMB'0,000)	145
Continued term of service of the domestic accounting firm	8
Name of CPA of the domestic accounting firm	Kan Jing Ping, Zhang Chao
Continued term of service of certified public accountants of the domestic accounting firm	4, 1
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 foreign accounting firm (if any)	Not applicable

Whether change appointed accounting firm at current period

Yes No

Engagement of accounting firm, financial consultant or sponsor for audit of internal controls

Applicable Not applicable

VI. Material Matters



X. Delisting 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

Basic information about litigation (arbitration)	Amount involved (RMB'0,000)	Will estimated liability be incurred or not	Progress of litigation (arbitration)	Judgment result of the litigation (arbitration) and its impacts	Judgment execution of the litigation (arbitration)	Disclosure date	Disclosure index
Investor lawsuits	12,005.79	Yes	(For details, please refer to XIV.2 "Contingencies" in the section of "Financial Statements" 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 material punishment or rectification 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.



VI. Material Matters

XVI. Significant related party transactions

1. Related party transactions associated with the day-to-day operations

Applicable Not applicable

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

2. Related party transaction in connection with purchase or sale of assets or equity interests

Applicable Not applicable

There was no related party transaction in connection with purchase or sale of assets or equity interest during the reporting period.

3. Related party transaction in connection with joint external investment

Applicable Not applicable

There was no related party transaction in connection with joint external investment during the reporting period.

4. Amounts due from/to related parties

Applicable Not applicable

Any non-trade amounts due from/to related parties

Applicable Not applicable

Debts payable to related party

Related Party	Related relationship	Reasons	Balance at the beginning of the period (RMB ten thousand)	Amount increased during the current period (RMB ten thousand)	Amount repaid during the current period (RMB ten thousand)	Interest rate	Interest during the current period (RMB ten thousand)	Balance at the end of the period (RMB ten thousand)
Shouguang Jinxin	Controlling shareholder	Financial support	0	35,000	25,000	3.85%	74.43	10,000

Effect of related debts on the operating results and financial position of the Company

To support the operation and development of the Company and reduce the finance costs, Shouguang Jinxin, the controlling shareholder of the Company, provided financial support of no more than RMB 350 million to the Company with a term less than one year after the approval at the fifth extraordinary meeting of the sixth session of the Board of the Company and the 2020 first extraordinary general meeting. Such amount can be reused within the limit of loan and valid period and the interest rate of which was determined by referring to the market interest rate. The Company is not required to provide any form of security such as guarantees, mortgages and pledges for the financial support.

VI. Material Matters



5. Other significant related party transaction

Applicable Not applicable

XVII. Significant contracts and their implementation

1. Entrustment, Contracting and leasing

(1) Entrustment

Applicable Not applicable

The Company had no entrustment during the reporting period.

(2) Contracting

Applicable Not applicable

The Company had no contracting during the reporting period.

(3) Leasing

Applicable Not applicable

The Company had no leasing during the reporting period.



VI. Material Matters

2. Significant guarantee

✓ Applicable Not applicable

(1) Guarantees

Unit: RMB ten thousand

External guarantees of the Company and its subsidiaries (excluding guarantee in favour of subsidiaries)								
Name of guaranteed party	Date of disclosure of announcement in relation to the line of guarantee	Line of guarantee	Date of actual occurrence	Actual guarantee amount	Type of guarantee	Guarantee period	Fully performed or not	Related party guarantee or not
	Guarantees of the Company in favour of subsidiaries							
Name of guaranteed party	Date of disclosure of announcement in relation to the line of guarantee	Line of guarantee	Date of actual occurrence	Actual guarantee amount	Type of guarantee	Guarantee period	Fully performed or not	Related party guarantee or not
	Guarantees of subsidiaries in favour of subsidiaries							
Shouguang Maolong	16 May 2020	14,510.78	30 June 2020	13,959.99	Security	3 years	No	No
Shouguang Maolong	27 March 2020	50,000	—	0.00	—	—	—	—
Weihai Baolong	23 March 2019	10,000	—	0.00	—	—	—	—
Molong I&E	23 March 2019	10,000	—	0.00	—	—	—	—
Total line of guarantees granted to subsidiaries during the reporting period (B1)		64,510.78	Total actual amount of guarantees in favour of subsidiaries during the reporting period (B2)					13,959.99
Total line of guarantees granted to subsidiaries as at the end of the reporting period (B3)		84,510.78	Total actual amount of guarantees in favour of subsidiaries as at the end of the reporting period (B4)					13,959.99
Guarantees of subsidiaries in favour of subsidiaries								
Name of guaranteed party	Date of disclosure of announcement in relation to the line of guarantee	Line of guarantee	Date of actual occurrence	Actual guarantee amount	Type of guarantee	Guarantee period	Fully performed or not	Related party guarantee or not
	Total guarantees of the Company (being the sum of the above three guarantees)							
Shouguang Maolong	16 May 2020	4,048.95	30 June 2020	3,895.27	Security	3 years	No	No
Shouguang Maolong	16 May 2020	1,440.27	30 June 2020	1,385.6	Security	3 years	No	No
Total line of guarantees granted to subsidiaries during the reporting period (C1)		5,489.22	Total actual amount of guarantees in favour of subsidiaries during the reporting period (C2)					5,280.86
Total line of guarantees granted to subsidiaries as at the end of the reporting period (C3)		5,489.22	Total actual amount of guarantees in favour of subsidiaries as at the end of the reporting period (C4)					5,280.86
Total guarantees of the Company (being the sum of the above three guarantees)								
Total line of guarantees granted during the reporting period (A1+B1+C1)		70,000	Total actual amount of guarantees during the reporting period (A2+B2+C2)					19,240.85
Total line of guarantees granted as at the end of the reporting period (A3+B3+C3)		90,000	Total actual amount of guarantees as at the end of the reporting period (A4+B4+C4)					19,240.85
Total actual guarantees (i.e. A4+B4+C4) as a percentage of net assets of the Company Including:								10.80%
Balance of guarantees given for shareholders, actual controllers and their related parties (D)								0
Balance of debt guarantees direct or indirectly given for guarantee parties with gearing ratio of over 70% (E)								19,240.85
Amount of total guarantees in excess of 50% of net assets (F)								0
Total of the above three guarantee amounts (D+E+F)								19,240.85
For unexpired guarantees, descriptions about the guarantee liabilities or possible joint and several liabilities of repayment occurred during the reporting period (if any)								Nil
External guarantees in breach of procedural requirements (if any)								Nil

VI. Material Matters



Details of synthetic guarantees

On 15 May 2020, the third special meeting of the sixth session of the board of directors of the Company considered and passed the "Resolution on the Provision of Guarantee for Shouguang Maolong" (《關於為壽光懋隆提供擔保的議案》). It was agreed that Shouguang Maolong (a wholly-owned subsidiary) should commence the provision of comprehensive financial services with China Great Wall Asset Management Co., Ltd. Shandong Branch with a total amount of not exceeding RMB20,000 ten thousand for a period of no longer than 36 months, and that the Company, Shouguang Baolong and Weihai Baolong should provide certain of their real properties and land use rights, respectively, as security of guarantee in respect of the commencement of the above business by Shouguang Maolong. Such guarantee has been considered and approved at the annual general meeting 2019 of the Company. Details are available on the website of cninfo (<http://www.cninfo.com.cn>) in the announcement numbered 2020-030.

(2) Illegal external guarantees

Applicable Not applicable

There were no illegal external guarantees during the reporting period.

3. Entrust others to manage cash assets

(1) Entrusted wealth management

Applicable Not applicable

Particulars of entrusted wealth management during the reporting period

Unit: RMB'0,000

Specific type	Source of funds for entrusted wealth management	Number for entrusted wealth management	Outstanding balance	The amount due but not received
Wealth management products of banks	Self-owned capital	18,920	0	0
Total		18,920	0	0

Particulars of high-risk entrusted wealth management with individually significant or low-security, low-liquidity and non-principal protected products

Applicable Not applicable

Expected irrecoverable principal or other potential impairment in entrusted wealth management

Applicable Not applicable



VI. Material Matters

(2) Particulars of entrusted loans

Applicable Not applicable

The Company had no entrusted loans during the reporting period.

4. Major contracts during daily operations

Applicable Not applicable

5. Other significant contracts

Applicable Not applicable

The Company had no other significant contracts during the reporting period.

XVIII. Social Responsibility Report

1. Performing social responsibility

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

1. Safeguarding shareholders' interest

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. Safeguarding employees' interest

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 2020, the Company released a total of RMB45,000 from the relief fund to give support to employees having family difficulties.

VI. Material Matters



3. Actively participating in social undertakings

The Company paid great attention to the creation of social value and placed our focus of fulfilling social responsibility on actively participating in social services. We spared no effort to join social undertakings and charity activities and organized numerous donations with a view to rewarding the society within our capacity. In 2020, the Company, with the aim to help poverty alleviation, donated RMB12 ten thousand to relocate and expand the quinoa processing plant in Dongxiang County, Gansu Province. We positively responded to the call for blood donation of Epidemic Prevention and Control Office of Shouguang City by way of initiating and organizing around 100 staffs to participate in voluntary blood donation public welfare activities and proactively participating in social welfare undertakings, which demonstrated the social responsibility and undertaking of the Company.

2. Fulfillment of social responsibility regarding targeted poverty alleviation

(1) Targeted poverty alleviation plan

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

3. Information relating to environmental protection

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

Yes No

The name of the Company or subsidiary	Name of major pollutant and specific pollutant	Discharge method	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration	Implemented standards for pollutant discharge	Total volume of discharge	Approved total volume of discharge	Excessive discharge
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	0.00mg/m ³	50.00mg/m ³	0.00	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	17.00mg/m ³	150.00mg/m ³	2.28 tonnes	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	6.75mg/m ³	10.00mg/m ³	0.87 tonne	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	0.00mg/m ³	50.00mg/m ³	0	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	37.00mg/m ³	150.0mg/m ³	27.36 kilograms	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	8.90mg/m ³	10.00mg/m ³	6.58 kilograms	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	0.00mg/m ³	50.00mg/m ³	0.00	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	77.00mg/m ³	150.00mg/m ³	0.66 tonne	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	7.20mg/m ³	10.00mg/m ³	61.0 kilograms	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	0.00mg/m ³	50.00mg/m ³	0.00	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	66.00mg/m ³	150.00mg/m ³	0.71 tonne	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	6.90mg/m ³	10.00mg/m ³	74.63 kilograms	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	5.80mg/m ³	10.00mg/m ³	9.19 kilograms	—	No
Shandong Molong	Hydrogen chloride	Organised	1	Production complex	5.80mg/m ³	15.00mg/m ³	0.61 tonne	—	No
Shandong Molong	Hydrogen chloride	Organised	1	Production complex	5.80mg/m ³	15.00mg/m ³	0.68 tonne	—	No



VI. Material Matters

The name of the Company or subsidiary	Name of major pollutant and specific pollutant	Discharge method	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration	Implemented standards for	Total volume of discharge	Approved total volume of discharge	Excessive discharge
						pollutant discharge			
Shandong Molong	Benzene	Organised	1	Production complex	0.00mg/m ³	0.50mg/m ³	0.00	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0.00mg/m ³	5.00mg/m ³	0.00	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0.00mg/m ³	15.00mg/m ³	0.00	—	No
Shandong Molong	VOCs	Organised	1	Production complex	2.74mg/m ³	50.00mg/m ³	59.00 kilograms	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	1.05mg/m ³	50.00mg/m ³	0.12 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	14.60mg/m ³	150.00mg/m ³	1.80 tonnes	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	0.71mg/m ³	10.00mg/m ³	80.90 kilograms	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	9.00mg/m ³	50.00mg/m ³	0.19 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	70.00mg/m ³	150.00mg/m ³	1.56 tonnes	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	5.00mg/m ³	10.00mg/m ³	0.11 tonne	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	6.00mg/m ³	50.00mg/m ³	0.11 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	61.00mg/m ³	150.00mg/m ³	1.22 tonnes	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	7.40mg/m ³	10.00mg/m ³	0.15 tonne	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	6.30mg/m ³	10.00mg/m ³	87.12 kilograms	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	5.80mg/m ³	10.00mg/m ³	0.71 tonne	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	7.40mg/m ³	10.00mg/m ³	0.22 tonne	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0.00mg/m ³	0.50mg/m ³	0.00	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0.03mg/m ³	5.00mg/m ³	1.58 kilograms	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0.00mg/m ³	15.00mg/m ³	0.00	—	No
Shandong Molong	VOCs	Organised	1	Production complex	32.20mg/m ³	50.00mg/m ³	1.63 tonnes	—	No
Shouguang Maolong	Sulfur dioxide	Organised	1	Production complex	22.50mg/m ³	50.00mg/m ³	25.50 tonnes	—	No
Shouguang Maolong	Nitrogen oxides	Organised	1	Production complex	13.90mg/m ³	150.00mg/m ³	13.30 tonnes	—	No
Shouguang Maolong	Particulate matter	Organised	1	Production complex	1.25mg/m ³	10.00mg/m ³	1.42 tonnes	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	1.76mg/m ³	10.00mg/m ³	1.18 kilograms	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	0.56mg/m ³	10.00mg/m ³	1.37 kilograms	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	6.20mg/m ³	10.00mg/m ³	33.58 kilograms	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	6.20mg/m ³	10.00mg/m ³	355.44 kilograms	—	No

VI. Material Matters



The name of the Company or subsidiary	Name of major pollutant and specific pollutant	Discharge method	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration	Implemented standards for	Total volume of discharge	Approved total volume of discharge	Excessive discharge
						pollutant discharge			
Shouguang Baolong	Particulate matter	Organised	1	Production complex	5.70mg/m ³	10.00mg/m ³	495.86 kilograms	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	5.60mg/m ³	10.00mg/m ³	1.15 tonnes	—	No
Shouguang Baolong	Sulfur dioxide	Organised	1	Production complex	0.00mg/m ³	50.00mg/m ³	0.00	—	No
Shouguang Baolong	Nitrogen oxides	Organised	1	Production complex	43.40mg/m ³	150.00mg/m ³	30.40 kilograms	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	4.20mg/m ³	10.00mg/m ³	2.93 kilograms	—	No
Shouguang Baolong	Sulfur dioxide	Organised	1	Production complex	0.00mg/m ³	50.00mg/m ³	0.00	—	No
Shouguang Baolong	Nitrogen oxides	Organised	1	Production complex	44.50mg/m ³	150.00mg/m ³	9.14 kilograms	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	4.80mg/m ³	10.00mg/m ³	0.99 kilograms	—	No

Construction and operation of pollution prevention and control facilities

The Company and its subsidiaries conducted their environmental works in strict compliance with the environmental laws and regulations such as the Law of the People's Republic of China on Environmental Protection, the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise and the Law of the People's Republic of China on Prevention and Control of Water Pollution.

Wastewater treatment facilities: The Company has equipped all production plants with integrated sewage treatment facilities in all factories which have been in normal operation. Wastewater discharged from production process are treated and recycled without outward discharge;

Exhaust treatment facilities: The Company has equipped production lines in all production complexes with the corresponding environmental facilities, including denitration and electrostatic/electric precipitator, fabric filter, acid mist treatment equipment and volatile organic compounds treatment equipment, to ensure effective treatment and discharge of exhausts generated from the production process.

Environmental impact assessment of construction projects and other administrative permissions for environmental protection

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, where filing procedures have been carried out. The Company's pollutants discharge permits were all valid.

Emergency plans for sudden environmental incidents

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



VI. Material Matters

Environmental Self-monitoring Program

During the reporting period, the Company and its subsidiaries worked closely with local environmental inspection departments on periodic supervisory inspections. Four sets of exhaust online monitoring equipment were in normal operation. It engaged third party inspection firms to monitor their discharge statistics on a regular 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 ensure sound management of internal discharge of wastewater and exhaust.

Other discloseable environmental information

There was no other discloseable environmental information.

Other environmentally related information

There was no other environmentally related information.

XIX. Explanation for other matters of significance

Applicable Not applicable

1. As at the date of these financial statements, the proceedings 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 RMB120,057,935.29. Currently, the total amount involved in cases that have been judged or closed through mediation was RMB102,371,348.16, with settlement amount of RMB57,625,145.83. For closed proceedings, the Company is performing its obligations according to the judgment results. For other unclosed proceedings, if the result of first instance judgement come out, an estimated liabilities of RMB4,218,964.87 were provided in accordance with the amount judged in the first instance. For those proceedings that have been heard but pending judgment and those proceedings that have not been heard, an estimated liabilities of RMB10,173,859.77 were provided at a rate of 85% with reference to the proceedings already closed. The total amount of estimated liabilities provided for this matter by the Company was RMB72,017,970.47.

2. Completion of deregistration of subsidiaries

On 29 October 2019, the fifth meeting of the sixth session of the board of directors of the Company considered and passed a "Resolution on the Deregistration of a Wholly-owned Subsidiary" (《關於註銷全資子公司的議案》), which proposed to conduct centralized disposal of Shouguang Maolong Old Metals Recycle Co., Ltd., a wholly-owned subsidiary of the Company, by way of liquidation and deregistration (Announcement number : 2019-029). On 18 February 2020, the Company received from Shouguang Administrative Examination and Approval Service Bureau a notice of deregistration approval, notifying that the procedures for deregistering Maolong Recycle have been completed (Announcement number: 2020-002). Upon the deregistration, Maolong Recycle is no longer consolidated into the Company.

3. Progress of the proposed deregistration of a subsidiary

The Company convened the sixth meeting of the sixth session of the board of directors and the sixth meeting of the sixth session of supervisory committee respectively on 27 March 2020, and considered and passed a "Resolution on the Deregistration of a Controlled Subsidiary" (《關於註銷控股子公司的議案》), which proposed to dispose Shouguang Baolong Management and Consultancy Co., Ltd. (a controlled subsidiary), by way of liquidation and deregistration (Announcement number : 2020-017). Up to the date of disclosure of the report, the liquidation and deregistration of the subsidiary have not been completed.

VI. Material Matters



4. Change of control of the Company

On 28 September 2020, Zhang En Rong, the original controlling shareholder and actual controller of the Company, and Shandong Shouguang Jinxin Investment Development Holdings Group Limited entered into the Voting Rights Nomination Agreement between Shandong Shouguang Jinxin Investment Development Holdings Group Limited and Zhang En Rong on the 29.53% Share of Shandong Molong Petroleum Machinery Company Limited. Pursuant to which, Zhang En Rong nominated Shouguang Jinxin to exercise all the voting rights corresponding to 235,617,000 shares of the Company held by him (accounting for 29.53% of the total share capital of the listed company). The controlling shareholder of the Company has changed to Shouguang Jinxin, and the actual controller of the Company has changed to the State-owned Assets Supervision and Administration Bureau of Shouguang City.

5. Progress of the disposal of assets

The Company convened the sixth extraordinary meeting of the sixth session of the board of directors on 18 November 2020, and at which the "Resolution on the Disposal of Assets" (《關於出售資產的議案》) was considered and passed, which was also considered and passed by the Company's second extraordinary general meeting in 2020. According to requirements of the Company's strategic development and to optimize the production plan and achieve intensive production management, the Company sold out part of the land and fixtures to Shandong Shouguang Vegetable Wholesale Market Co., Ltd. (Announcement No. 2020-056). On 17 December 2020, the Company received a notice from Shandong Shouguang Vegetable Wholesale Market Co., Ltd., notifying that the registration procedures for the transfer of real estate involved in the disposal of asset had been completed.

XX. Significant events of subsidiaries of the Company

Applicable Not applicable



VII. Changes in Shares and Shareholders

I. Changes in Share Capital

1. Changes in Shares

Unit: share

	Prior to the change		Increase/decrease as a result of the change (+, -)					After the change	
	Number of shares	Percentage	New issue of shares	Bonus issue	Transfer from capital reserve	Others	Subtotal	Number of shares	Percentage
I. Shares subject to lock-up	106,500	0.01%	—	—	—	—	—	106,500	0.01%
1. State-owned shares	—	0.00%	—	—	—	—	—	—	0.00%
2. State-owned legal person shares	—	0.00%	—	—	—	—	—	—	0.00%
3. Other domestic shares	106,500	0.01%	—	—	—	—	—	106,500	0.01%
Including: Domestic legal person shares	—	0.00%	—	—	—	—	—	—	0.00%
Domestic natural person shares	106,500	0.01%	—	—	—	—	—	106,500	0.01%
4. Foreign shares	—	0.00%	—	—	—	—	—	—	0.00%
Including: Overseas legal person shares	—	0.00%	—	—	—	—	—	—	0.00%
Overseas natural person shares	—	0.00%	—	—	—	—	—	—	0.00%
II. Shares not subject to lock-up	797,741,900	99.99%	—	—	—	—	—	797,741,900	99.99%
1. RMB ordinary shares	541,615,500	67.88%	—	—	—	—	—	541,615,500	67.88%
2. Domestically-listed foreign shares	—	0.00%	—	—	—	—	—	—	0.00%
3. Overseas-listed foreign shares	256,126,400	32.10%	—	—	—	—	—	256,126,400	32.10%
4. Others	—	0.00%	—	—	—	—	—	—	0.00%
III. Total number of shares	797,848,400	100.00%	—	—	—	—	—	797,848,400	100.00%

Reason(s) for change in shares

Applicable Not applicable

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

VII. Changes in Shares and Shareholders



Effects of the change in shares on financial 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. Changes in locked-up shares

Applicable Not applicable

II. Issuance and listing of securities

1. Securities issuance (exclusive of preferred share) during the reporting period

Applicable Not applicable

2. Explanation for the changes in total shares of the Company and shareholding structure and movement in the assets and liability structure of the Company

Applicable Not applicable

3. Existing internal staff shares

Applicable Not applicable

III. Profiles of the shareholders and actual controller

1. Number of corporate shareholders and shareholding

Unit: share

Total number of ordinary shareholders at the end of reporting period	29,712 (of which 29,666 were for A shares and 46 were for H shares)	Total number of ordinary shareholders at the end of last month before the annual report disclosure day	29,372	Total number of voted recovery preferred shareholder at the end of reporting period	0	Total number of voted recovery preferred shareholder at the end of last month before the annual report disclosure day	0
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VII. Changes in Shares and Shareholders

Shareholders holding more than 5% of the shares or shareholding of the top ten shareholders								
Name of shareholder	Nature of shareholders	Percentage of shareholding	Number of	Increase/	Number of lock-up shares held	Number of non-lock up shares held	Pledged or frozen	Number of shares
			shares held at the end of reporting period	decrease in the reporting period				
HKSCC Nominees Limited	Overseas legal person	30.93%	246,766,590	61,200	0	246,766,590	—	—
Zhang En Rong	Domestic natural person	29.53%	235,617,000	0	0	235,617,000	Frozen	15,000,000
Zhang Yun San	Domestic natural person	4.03%	32,168,400	0	0	32,168,400	—	—
Lin Fu Long	Domestic natural person	3.08%	24,602,700	(1,559,300)	0	24,602,700	—	—
China AMC — Central Huijin Asset Management Co., Ltd — China AMC — Single Asset Management Plan of Huijin Asset Management	Others	1.03%	8,205,600	(5,330,500)	0	8,205,600	—	—
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)	Others	0.46%	3,697,552	(47,700)	0	3,697,552	—	—
Hong Kong Securities Clearing Company Limited	Overseas legal person	0.34%	2,703,515	2,152,875	0	2,703,515	—	—
Guo Li Min	Domestic natural person	0.32%	2,588,700	2,588,700	0	2,588,700	—	—
Wang Jian Sen	Domestic natural person	0.25%	2,006,100	2,006,100	0	2,006,100	—	—
Xie Kun	Domestic natural person	0.25%	1,999,600	1,999,600	0	1,999,600	—	—
Remarks on strategic investor or ordinary legal person becoming top 10 shareholders after placing of new shares (if any)	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.							
Description of entrusting/being entrusted voting rights or waiving voting rights of the above Shareholders	On 28 September 2020, Zhang En Rong, the original controlling shareholder and actual controller of the Company, and Shandong Shouguang Jinxin Investment Development Holdings Group Limited entered into the Voting Rights Nomination Agreement between Shandong Shouguang Jinxin Investment Development Holdings Group Limited and Zhang En Rong on the 29.53% Share of Shandong Molong Petroleum Machinery Company Limited. Pursuant to which, Zhang En Rong nominated Shouguang Jinxin to exercise all the voting rights corresponding to 235,617,000 shares of the Company held by him (accounting for 29.53% of the total share capital of the listed company). The controlling shareholder of the Company has changed to Shouguang Jinxin, and the actual controller of the Company has changed to the State-owned Assets Supervision and Administration Bureau of Shouguang City.							

VII. Changes in Shares and Shareholders



Name of shareholder	Shareholdings of the top ten shareholders of non-lock shares		Class of shares	Amount
	Number of lock-up shares held at the end of the reporting period	Class of shares		
HKSCC Nominees Limited	246,766,590	Overseas listed foreign shares	246,766,590	
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	24,602,700	RMB ordinary shares	24,602,700	
China AMC — Central Huijin Asset Management Co., Ltd — China AMC — Single Asset Management Plan of Huijin Asset Management	8,205,600	RMB ordinary shares	8,205,600	
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)	3,697,552	RMB ordinary shares	3,697,552	
Hong Kong Securities Clearing Company Limited	2,703,515	RMB ordinary shares	2,703,515	
Guo Li Min	2,588,700	RMB ordinary shares	2,588,700	
Wang Jian Sen	2,006,100	RMB ordinary shares	2,006,100	
Xie Kun	1,999,600	RMB ordinary shares	1,999,600	

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 non-restricted 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)

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.



VII. Changes in Shares and Shareholders

2. Controlling shareholders of the Company

Nature of controlling shareholder: regional state-owned enterprise

Type of controlling shareholder: legal person

Name of shareholder	Legal representative/ Person in charge of the unit	Date of establishment	Enterprise code	Principal business
Shandong Shouguang Jinxin Investment Development Holdings Group Limited	Yang Yun Long	16 December 2005	91370783785039174G	Making external investments using self-owned funds (excluding businesses in relation to finance, securities, futures, wealth management, fund raising, financing; provided that financial businesses such as deposit-taking, financing guarantee and wealth management for clients are not permitted without the approval of financial regulatory authorities); Property management; premise renting; land consolidation and development; exhibition services; corporate management; financial consultation and consultation service for the above-mentioned operations (projects which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out)

Shareholdings of controlling shareholders who have control or hold shares in other domestic or overseas listed companies during the reporting period

During the reporting period, Shouguang Jinxin holds 45.21% equity interests in Chenming Holdings Co., Ltd, which directly and indirectly holds a total of 821,454,482 shares in Chenming Paper (Stock Code: 000488, 200488, 01812), representing 27.53% of the total share capital of Chenming Paper.

Change of controlling shareholders during the reporting period

Applicable Not applicable

Name of the new controlling shareholder	Shandong Shouguang Jinxin Investment Development Holdings Group Limited
Date of changes	28 September 2020
Index to the website designated	http://www.cninfo.com.cn
Disclosure date on the website designated	29 September 2020

VII. Changes in Shares and Shareholders



3. De facto controllers and the persons acting in concert with them

Nature of de facto controller: Regional state-owned assets administration authority

Type of de facto controller: legal person

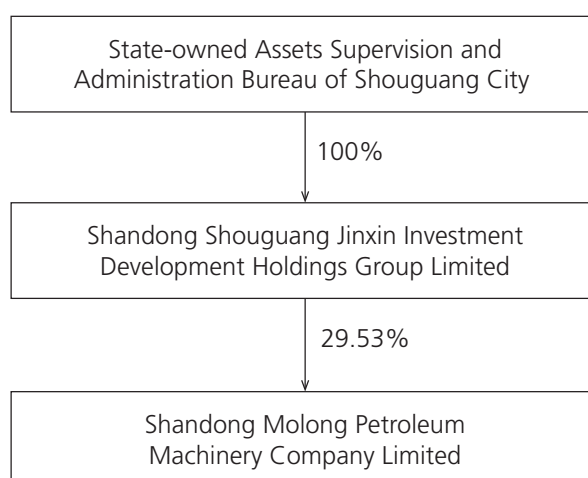
Name of de facto controller	Legal representative/ Person in charge of the unit	Date of establishment	Enterprise code	Principal business
State-owned Assets Supervision and Administration Bureau of Shouguang City	N/A	1 August 1991	N/A	Responsible for the management and capital operation of the state-owned assets of enterprises and public institutions in Shouguang city.
Shareholdings of de facto controller who has control or holds shares in other domestic or overseas listed companies during the reporting period	During the reporting period, Shouguang SAB holds 100% equity of Shouguang Jinxin. Shouguang Jinxin holds 45.21% equity interests in Chenming Holdings Co., Ltd, which directly and indirectly holds a total of 821,454,482 shares in Chenming Paper (Stock Code: 000488, 200488, 01812), representing 27.53% of the total share capital of Chenming Paper.			

Change of the de facto controller during the reporting period

Applicable Not applicable

Name of the new de facto controller	the State-owned Assets Supervision and Administration Bureau of Shouguang City
Date of changes	28 September 2020
Index to the website designated	http://www.cninfo.com.cn
Disclosure date on the website designated	29 September 2020

Chart illustrating the equity and controlling relationship between the Company and the de facto controller





VII. Changes in Shares and Shareholders

De facto controller controlling the Company through trust or other asset management method

Applicable Not applicable

4. Other legal person shareholders interested in over 10% of the shares of the Company

Applicable Not applicable

5. Restrictions on decrease in shareholding by controlling shareholders, beneficial controller, reorganising party and other undertaking parties

Applicable Not applicable

VIII. Preferred Shares



Applicable Not applicable

The Company had no preferred Shares during the reporting period.



IX. Convertible Corporate Bonds

Applicable Not applicable

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

X. Directors, Supervisors, Senior Management and Employees



I. Changes in Shareholdings of the Directors, Supervisors and Senior Management

Name	Position	Office status	Gender	Age	Term start date	Term end date	Shares held at the beginning of the period (shares)	Shares increased during the period (shares)	Share decreased during the period (shares)	Other changes (shares)	Shares held at the end of the period (shares)
Yang Yun Long	Chairman	Incumbent	Male	44	25 December 2020	20 December 2021	0	0	0	0	0
Yuan Rui	Deputy Chairman	Incumbent	Male	33	25 December 2020	20 December 2021	0	0	0	0	0
Liu Yun Long	General manager	Incumbent	Male	51	21 December 2018	20 December 2021	2,500	0	0	0	2,500
Liu Min	Executive director										
	Deputy general manager										
	Financial controller	Incumbent	Male	45	21 December 2018	20 December 2021	0	0	0	0	0
Li Zhi Xin	Executive director										
	Deputy general manager	Incumbent	Male	43	21 December 2018	20 December 2021	0	0	0	0	0
Yao You Ling	Non-executive director	Incumbent	Male	58	21 December 2018	20 December 2021	0	0	0	0	0
Wang Quan											
Hong	Non-executive director	Incumbent	Male	52	21 December 2018	20 December 2021	139,500	0	0	0	139,500
Tang Qing Bin	Independent director	Incumbent	Male	57	21 December 2018	20 December 2021	0	0	0	0	0
Song Zhi Wang	Independent director	Incumbent	Male	57	21 December 2018	20 December 2021	0	0	0	0	0
Cai Zhong Jie	Independent director	Incumbent	Male	58	21 December 2018	20 December 2021	0	0	0	0	0
Wei Zhao Qiang	Chairman of supervisory board	Incumbent	Male	49	21 December 2018	20 December 2021	0	0	0	0	0
Wang Ming Hua	Supervisor	Incumbent	Male	46	21 December 2018	20 December 2021	0	0	0	0	0
Liu Bo	Supervisor	Incumbent	Male	45	21 December 2018	20 December 2021	0	0	0	0	0
Zhao Xiao Tong	Secretary to the Board	Incumbent	Male	29	15 May 2020	20 December 2021	0	0	0	0	0
Zhang Yu Zhi	Executive director										
	Deputy general manager	Outgoing	Male	62	21 December 2018	6 November 2020	0	0	0	0	0
Total	—	—	—	—	—	—	142,000	0	0	0	142,000

II. Change of Directors, Supervisors and Senior Management

✓ Applicable Not Applicable

Name	Position	Type	Date	Reason
Liu Min	Secretary to the Board	Removal	15 May 2020	Resigned as secretary to the Board due to work adjustments.
Zhao Xiao Tong	Secretary to the Board	Appointment	15 May 2020	Appointed as the secretary to the Board at the third extraordinary meeting of the sixth session of the Board.
Liu Yun Long	Executive director, chairman	Resignation	6 November 2020	Due to work adjustments, he applied for the resignation of the Company's chairman, director and related positions in special committees of the Board.
Zhang Yu Zhi	Executive director	Resignation	6 November 2020	Because he has reached the retirement age, he applied for the resignation as a director of the Company.
Zhang Yu Zhi	Deputy general manager	Removal	6 November 2020	Because he has reached the retirement age, he applied for the resignation as a deputy general manager.
Yang Yun Long	Executive director, chairman	Election	25 November 2020	Election by the general meeting and the Board.
Yuan Yui	Executive director, deputy chairman	Election	25 November 2020	Election by the general meeting and the Board.



X. Directors, Supervisors, Senior Management and Employees

III. Duties and responsibilities

Professional backgrounds, major work experience and duties within the Company of the current Directors, Supervisors and Senior Managers of the Company

(1) Members of the Board

Executive Director

Mr. Yang Yun Long, male, Han ethnicity, born in 1976, Chinese, is a CPC party member and an undergraduate degree holder. Mr. Yang has successively served as deputy chief officer of the Government Procurement Centre of Shouguang, chief officer of the Government Investment Project Management Office of Shouguang, deputy-general of Shouguang SAB, chairman of Shouguang Jincai Public Asset Management Co., Ltd. (壽光市金財公有資產經營有限公司), director of Shouguang Rural Commercial Bank (壽光市農村商業銀行) and Chief officer of the Management Officer of Hou Town Marine Chemical Industrial Park of Shouguang Binhai (Yangkou) Economic Development Zone. He is currently the chairman and party branch secretary of Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司), executive director and general manager of Shouguang Jintou Asset Management Co., Ltd. (壽光市金投資產管理有限公司), executive director and general manager of Shouguang Jintou Culture Industry Development Co., Ltd. (壽光市金投文化產業發展有限公司), executive director and general manager of Shouguang Jintou Non Financing Guarantee Co., Ltd. (壽光市金投非融資性擔保有限公司), chairman and general manager of Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司), chairman and general manager of Weifang Jinxuan Equity Investment Fund Management Co., Ltd. (濰坊金萱股權投資基金管理有限公司), executive director of Kunpeng Qinghai Asset Management Co., Ltd. (昆朋青海資產管理股份有限公司) and chairman and general manager of Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司). Since November 2020, he has been the chairman of the Company.

Mr. Yuan Rui, male, Han ethnicity, born in 1987, Chinese, is CPC party member and an undergraduate degree holder. He worked as the deputy section head and section head of Shouguang People's Government Office. Mr. Yuan is currently a executive director of Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司), chief supervisor of Shandong Longxing Plastic Film Technology Co., Ltd. (山東龍興塑膜科技股份有限公司), an executive director of Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司), a supervisor of Shandong Boyuan Pharmaceutical & Chemical Co., Ltd. (山東博苑醫藥化學股份有限公司), a supervisor of Kunpeng Qinghai Asset Management Co., Ltd.* (昆朋青海資產管理股份有限公司) and a director of Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司). Since November 2020, he has served as the deputy chairman of the Company.

Mr. Liu Min, male, Han ethnicity, born in February 1975, Chinese. Joining the Company in 2003, he has successively held the posts of director of the information center, audit director and finance director of the Company. Since December 2018, Mr. Liu Min has served as an executive director, and also served as deputy general manager and chief financial officer of the Company.

Mr. Li Zhi Xin, male, Han ethnicity, born in 1977, Chinese, is a CPC party member. 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 production, safety and environmental protection of the Company.

X. Directors, Supervisors, Senior Management and Employees



Non-executive Directors

Mr. Yao You Ling, male, Han ethnicity, born in 1962, Chinese, 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. Since December 2018, Mr. Yao has served as a director of the Company.

Mr. Wang Quan Hong, male, Han ethnicity, born in 1968, Chinese, is an economist. Mr. Wang was an officer of the planning office at Agricultural Bank of China Shandong Branch, a principal staff member of the capital and finance department of China Great Wall Asset Management Jinan Office, and the director and deputy senior manager of China Great Wall Asset Management Jinan Office. He is currently the deputy senior manager of the second asset management department of China Great Wall Asset Management Co., Ltd. Shandong Branch. Since December 2018, Mr. Wang has served as a director of the Company. As of the date of this report, Mr. Wang Quan Hong holds 139,500 shares of the Company.

Independent Directors

Mr. Tang Qing Bin, male, Han ethnicity, born in 1963, Chinese, is a CPC party member and a certified public accountant. 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 Certified Public Accountants Co., Ltd. He is currently a senior partner of Beijing Zhongzheng Tiantong Certified Public Accountants Co., Ltd, and an independent director of Lucion Venture Capital Group Co., Ltd. Since December 2018, Mr. Tang has served as an independent director of the Company.

Mr. Song Zhi Wang, male, Han ethnicity, born in 1963, Chinese, is a senior economist with a master's degree in business administration. Mr. Song held positions in the School of Finance of Qilu University of Technology and the financial management office of the People's Bank of China (Shandong Branch). He was 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. Since December 2018, Mr. Song has served as an independent director of the Company.

Mr. Cai Zhong Jie, male, Han ethnicity, born in 1962, Chinese, 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 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. Since December 2018, Mr. Cai has served as an independent director of the Company.



X. Directors, Supervisors, Senior Management and Employees

(2) Members of the Supervisory Board

Mr. Wei Zhao Qiang, male, Han ethnicity, born in 1971, Chinese, holds a junior college degree. Joining the Company in 1995, Mr. Wei has successively served as a technician and director of Shouguang Maolong, and the chief of the electro-mechanical section of Shouguang Baolong. He is currently the chief electrical engineer and the director of the equipment office of the smelting reduction department, and chairman of the Supervisory Board.

Mr. Wang Ming Hua, male, Han ethnicity, born in 1974, Chinese, 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). Since December 2018, Mr. Wang has served as a supervisor of the Company.

Mr. Liu Bo, male, Han ethnicity, born in 1975, Chinese, is a CPC party member and holds a master degree in business administration. Mr. Liu worked for the Financial Ombudsman's Office 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 Certified Public Accountants LLP. (Shandong Branch). He is also a fellow member of the Chinese Institute of Certified Public Accountants, a Premium Industry Talent of Certified Public Accountants in Shandong (山東省註冊會計師行業高端人才), a financial expert for the World Bank Shandong Project, and a distinguished financial expert for the Department of Finance, Department of Commerce, and Economic and Information Technology Committee of Shandong Province. Since December 2018, Mr. Liu has served as a supervisor of the Company.

(3) Senior Management

Mr. Liu Yun Long, male, Han ethnicity, born in 1969, Chinese, is a CPC party member and one of the founders of the Company. He joined the Company in 1990 and held posts of workshop supervisor, factory branch manager, general manager of Weihai Baolong, general manager of Shouguang Baolong, deputy general manager and chairman of the Company successively. He is currently the general manager of the Company.

Mr. Zhao Xiao Tong, male, Han ethnicity, born in 1991, Chinese, is a CPC party member and holds a bachelor degree in economics. Mr. Zhao served as the manager of the securities investment department and the representative of securities affairs of Shandong Chenming Paper Holdings Limited. Since December 2018, he has served as the chief manager of the Company's Board Office and representative of securities affairs, and is currently the secretary to the Board of the Company.

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

X. Directors, Supervisors, Senior Management and Employees



(4) Company Secretary

Mr. Chan Wing Nang, Billy (陳永能先生), male, born in 1961, Hong Kong resident, graduated from the University of Newcastle upon Tyne, United Kingdom with a bachelor degree in Civil Engineering. 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 Certified 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. He is currently the company secretary of the Company.

Positions held at shareholders' entities

✓ Applicable □ Not applicable

Name of employee	Name of shareholder entity	Position held at shareholder entity	Term start date	Term end date	Entitlement to compensation and allowances from shareholder entity
Yang Yun Long	Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司)	Chairman and general manager	1 February 2019	—	Yes
Yuan Rui	Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司)	Director	1 February 2019	—	Yes

Positions held at other entities

Name of employee	Name of other entity	Position held at other entity	Term start date	Term end date	Entitlement to compensation and allowances from other entity
Yang Yun Long	Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司)	Chairman	1 July 2017	—	Yes
	Shouguang Jintou Asset Management Co., Ltd. (壽光市金投資產管理有限公司)	Executive director and general manager	1 July 2017	—	Yes
	Shouguang Jintou Culture Industry Development Co., Ltd. (壽光市金投文化產業發展有限公司)	Executive director and general manager	1 July 2017	—	Yes
	Shouguang Jintou Non Financing Guarantee Co., Ltd. (壽光市金投非融資性擔保有限公司)	Executive director and general manager	1 July 2017	—	Yes
	Weifang Jinxuan Equity Investment Fund Management Co., Ltd. (濰坊金萱股權投資基金管理有限公司)	Chairman and general manager	1 April 2019	—	Yes
	Kunpeng Qinghai Asset Management Co., Ltd. (昆朋青海資產管理股份有限公司)	Executive director	1 June 2020	—	Yes
	Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	Chairman and general manager	1 October 2020	—	Yes



X. Directors, Supervisors, Senior Management and Employees

Name of employee	Name of other entity	Position held at other entity	Term start date	Term end date	Entitlement to compensation and allowances from other entity
Yuan Rui	Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司)	Executive director	1 September 2017	—	Yes
	Shandong Longxing Plastic Film Technology Co., Ltd. (山東龍興塑膜科技股份有限公司)	Chief supervisor	1 September 2018	—	Yes
	Shandong Boyuan Pharmaceutical & Chemical Co., Ltd. (山東博苑醫藥化學股份有限公司)	Supervisor	1 March 2020	—	Yes
	Kunpeng Qinghai Asset Management Co., Ltd. (昆明青海資產管理股份有限公司)	Supervisor	1 June 2020	—	Yes
	Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	Director	1 October 2020	—	Yes
Yao You Ling	Luyin Investment Group Co., Ltd.	Deputy general manager	1 January 2010	18 November 2020	Yes
Wang Quan Hong	Great Wall Asset Management Co., Ltd., Shandong Province Branch	Senior manager	1 February 2000	—	Yes
Tang Qing Bin	Beijing Zhongzheng Tiantong Certified Public Accountants Co., Ltd. (Special General Partnership)	Senior partner	1 October 2010	—	Yes
Tang Qing Bin	Lucion Venture Capital Group Co., Ltd.	Independent director	1 January 2019	—	Yes
Song Zhi Wang	Shandong Jiuan Insurance Broker Co., Ltd.	Chairman	1 March 2003	—	Yes
Cai Zhong Jie	Jincheng Tongda & Neal (Jinan) Law Firm	Senior partner	1 September 2014	—	Yes
Cai Zhong Jie	Jinan Ruitao Corporate Management and Consultancy Co., Ltd.	Executive director and manager	1 June 2017	—	Yes
Cai Zhong Jie	Jinneng Science and Technology Company Limited	Independent director	1 November 2017	—	Yes
Wang Ming Hua	Shandong Normal University	Professor	1 July 2015	—	Yes
Liu Bo	Union Power Certified Public Accountants (Special General Partnership)	Director of Shandong Branch	1 May 2017	—	Yes

Applicable Not applicable

Any securities regulatory institution punishment to the Company's Director, Supervisor and senior management who are incumbent and outgoing during the reporting period at last 3 years

Applicable Not applicable

X. Directors, Supervisors, Senior Management and Employees



IV. Remunerations of Directors, Supervisors and Senior Management

Decision process, basis for determining and actual payment of the remuneration of Directors, Supervisors and Senior Management

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.

Compensations of Directors, Supervisors and Senior Management during the reporting period

Unit: RMB'0,000

Name	Position	Gender	Duty		Total remuneration before tax received from the Company	Entitlement to compensation from the related party of the Company
			Age	Status		
Yang Yun Long	Chairman	Male	44	Incumbent	0	Yes
Yuan Rui	Deputy chairman	Male	33	Incumbent	0	Yes
Liu Yun Long	General manager	Male	51	Incumbent	59.04	No
Liu Min	Executive director, deputy general manager, financial controller	Male	45	Incumbent	36.67	No
Li Zhi Xin	Executive director, deputy general manager	Male	43	Incumbent	42.01	No
Yao You Ling	Non-executive director	Male	58	Incumbent	7.37	No
Wang Quan Hong	Non-executive director	Male	52	Incumbent	0	No
Tang Qing Bin	Independent director	Male	57	Incumbent	11.32	No
Song Zhi Wang	Independent director	Male	57	Incumbent	11.32	No
Cai Zhong Jie	Independent director	Male	58	Incumbent	11.32	No
Wei Zhao Qiang	Chairman of supervisory board	Male	49	Incumbent	17.58	No
Wang Ming Hua	Supervisor	Male	46	Incumbent	3.57	No
Liu Bo	Supervisor	Male	45	Incumbent	3.57	No
Zhao Xiao Tong	Secretary to the board	Male	29	Incumbent	18.28	No
Zhang Yu Zhi	Executive director, deputy general manager	Male	62	Outgoing	33.02	No
Total	—	—	—	—	255.07	—

Stock ownership incentive awarded to the Directors and senior management of the Company

Applicable Not applicable



X. Directors, Supervisors, Senior Management and Employees

V. Personnel of the Company

1. Number of staffs, professional structure and education level

Number of staffs on active duty in parent company (persons)	1,872
Number of staffs on active duty in major subsidiaries (persons)	1,018
Total number of staffs on active duty (persons)	2,890
Total number of paid staffs in the current period (persons)	2,890
Number of retired staffs whose expenses are borne by the parent company and major subsidiaries (persons)	0

Professional structure

Professional structure type	Number of individuals
Production personnel	2,528
Sales personnel	57
Technicians	111
Financial staff	32
Administrative staff	162
Total	2,890

Education level

Type of education level	Number of individuals
Master and above	39
Bachelor	173
Junior college	542
Technical secondary school (high school) qualifications and below	2,136
Total	2,890

2. Remuneration policy

- (1) In order to govern the remuneration management of the Company, give full play of the incentive effect of remuneration, define 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;

X. Directors, Supervisors, Senior Management and Employees



- (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 referring to the local market rate of remuneration and benefit packages and after the discussion of senior management, 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) Combining with domestic and foreign market demand, the Company vigorously promotes the development of new products and formulated incentive measures for new products and new markets to further enhance the enthusiasm of employees for greater performance and higher profitability, so that the employees can share interests with the Company.

3. Training programmes

- (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 and 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. Labor outsourcing

- Applicable Not applicable



XI. Corporate Governance

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) **Shareholders and general meetings:** 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. Sufficient 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) **Controlling shareholder and the listed company:** The Company's controlling shareholder is Shouguang Jinxin. 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) **Directors and the Board:** The Company appoints directors in strict compliance with the procedures set out in 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 optimize 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 scientific and professional opinions for reference by the Board in its decision-making.
- (IV) **Supervisors and the Supervisory Committee:** 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 financial 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.

XI. Corporate Governance



- (V) **Performance appraisal and incentive mechanism:** 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) **Information disclosure and transparency:** 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 2020, there were no irregularities in corporate governance such as disclosure of unpublished information to major shareholders and de facto controllers.
- (VII) **Stakeholders:** 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.

Any significant variance between actual state of corporate governance and listed company governing listed company governing of CSRC issue

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



XI. Corporate Governance

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

1. General meeting during the reporting period

Session of meeting	Type of meeting	Percentage of investors attending	Convening date	Date of Disclosure	Index of Disclosure
2019 Annual general meeting	Annual general meeting	30.12%	19 June 2020	20 June 2020	http://www.cninfo.com.cn
2020 First extraordinary general meeting	Extraordinary general meeting	35.98%	25 November 2020	26 November 2020	http://www.cninfo.com.cn
2020 Second extraordinary general meeting	Extraordinary general meeting	38.10%	4 December 2020	5 December 2020	http://www.cninfo.com.cn

2. Preferred shareholders who are recovered by voting power request convening extraordinary general meeting

Applicable Not applicable

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

1. The attendance of independent directors to the Board meeting and general meeting

Name of independent director	The attendance of independent directors to the Board meeting and general meeting						
	Number of board meetings shall attend during the reporting period	Number of board meetings attended in person	Number of board meetings attended via telecommunications	Number of board meetings attended by representatives	Number of board meetings absent	Whether absent from two consecutive board meetings in person	Number of general meetings attended
Tang Qing Bin	10	1	9	0	0	No	2
Song Zhi Wang	10	1	9	0	0	No	1
Cai Zhong Jie	10	0	10	0	0	No	1

2. The independent directors' disagreement on matters raised to the Company

Whether the independent directors raised any disagreement on matters to the Company

Yes No

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



3. Other descriptions of duty performance by independent directors

Whether independent director's suggestions for the Company were accepted

Yes No

Independent directors of the Company, being responsible for the Company and investors, have strictly followed the Articles of Association and Rules for Independent Directors and performed their duties diligently and faithfully. They actively attended relevant meetings and conducted in-depth site investigations in the Company to keep abreast of the production and operation, the construction of internal control and the implementation of Board resolutions. They pay attention to the impact of changes in the external environment on the Company, and put forward reasonable opinions and suggestions for the Company's future operations and development.

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. Duty performance by the Strategy Committee

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 scientific nature of the Company's development planning and strategic decision-making, and provided strategic support for the company's continuous and sound development.

2. Duty performance by the Audit Committee

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 financial position and business operations of the Company, review the Company's periodic reports, 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 financial position and business operations of the Company.

3. Duty performance by the Remuneration and Evaluation Committee

During the reporting period, the Remuneration and Evaluation Committee of the Board considered and verified 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. Duty performance by the Nomination Committee

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 qualification of assuming the office of directors and senior management, and took active part in recommending candidates for appointment and election as directors and senior management of the Company.



XI. Corporate Governance

VII. Works of the Supervisory Board

Did the supervisory board find any risk exposure of the Company in the course of supervision during the reporting period

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 fixed 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. Any material deficiency was detected during the reporting period

Yes No

2. Self-assessment report on internal control

Date of disclosure of the full context of the self-assessment report on internal control	27 March 2021
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 financial statement of the Company	98.80%
The percentage of operation revenue included in the scope of evaluation to the total assets in combined financial statement of the Company	99.98%

XI. Corporate Governance



Type	Standard of affirming defect	
	Financial reports	Non-financial reports
Qualitative standard	<p>Signs of financial 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.</p> <p>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 final financial reporting process have one or more of the defects and cannot guarantee reasonable preparation of financial statements to realize the fair reflection.</p> <p>Common Defects is other control defect in addition to the above major flaws and important defects control.</p>	<p>Non-financial reporting signs of major defects including: violate national laws and regulations or normative documents, making major decisions, lack of procedure is not scientific, lack of system can lead to systemic failure, significant 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.</p>
Quantitative standard	<p>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 total profits of RMB10 million). Refers to consider important defects after compensating the control measures and actual deviation rate, the flaw overall impact level below the importance level (0.5% of the operation revenue or total profits of RMB10 million), but higher than the general level (0.2% of the operation revenue or total profits of RMB5 million). Defects commonly refer to consider compensating control measures and actual deviation rate, defect the overall level is lower than the general level (0.2% of the operation revenue or the total profits of RMB5 million).</p>	<p>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.</p>



XI. Corporate Governance

Type	Standard of affirming defect	
	Financial reports	Non-financial reports
Number of major defect in financial reports		0
Number of major defect in nonfinancial reports		0
Number of significant defect in financial reports		0
Number of significant defect in nonfinancial reports		0

X. Auditors' report or assurance report on internal control

Auditors' report on internal control

Extract of auditors' opinion in the auditor's report on internal control

In our opinion, Shandong Molong maintained effective internal control system of financial reporting in all major aspects as at 31 December 2020 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	27 March 2021
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 unqualified opinion
Whether there is significant defect in nonfinancial reports	No

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

Yes No

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

Yes No



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

1. Results

The Group's revenue and the financial positions of the Group and of the Company for 2020 are set out in the financial statement contained in the "Financial Statements" section of this report.

2. Financial Highlights

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

Results

	2020 RMB'000	For the year ended 31 December			
		2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total operating revenue	3,009,719	4,388,904	4,452,015	2,965,217	1,531,118
Operating (loss)/profit	38,175	(189,049)	69,123	45,588	(605,808)
Total (loss)/profit	17,529	(215,227)	61,163	34,488	(599,486)
Net profit/(loss)	11,455	(224,908)	102,406	35,081	(650,706)
Minority interests	(20,723)	(28,599)	9,930	(2,957)	(38,229)
Net (loss)/profit attributable to shareholders of the parent company	32,179	(196,309)	92,476	38,038	(612,476)
Basic (loss)/earnings per share (RMB)	0.04	(0.25)	0.12	0.05	(0.77)

Assets and Liabilities

	2020 RMB'000	For the year ended 31 December			
		2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total assets	5,175,636	5,735,752	6,607,537	6,222,803	5,772,043
Total liabilities	3,374,066	3,946,792	4,593,377	4,291,470	3,886,376
Net assets	1,801,570	1,788,960	2,014,160	1,931,333	1,885,667

3. Changes in Share Capital

For details of changes in the share capital of the Company for 2020, please refer to the section headed "Changes in Shares and Shareholders".



XI. Corporate Governance

4. Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group for 2020 are set out in subsection headed “Undistributed profit” of note (VII) to the financial statements.

5. Property, Plant and Equipment

Details of changes in the property, plant and equipment of the Group for 2020 are set out in note (VII) to the financial statements.

6. Capitalised Interests

During 2020, the Group capitalised interests of RMB nil.

7. Directors’ and Supervisors’ Service Contracts or Letters of Appointment

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. Special Committees

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. Continuing Connected Transactions

In order to support the Company’s business development and reduce financing costs and as approved by the Company’s fifth interim meeting of the sixth session of the Board and the Company’s 2020 first extraordinary general meeting, Shandong Shouguang Jinxin Investment Development Holdings Group Limited, the Company’s controlling shareholder, has provided financial assistance up to RMB 350 million for the Company with interest rate by referring to market interest rates. The Company has not required to provide guarantees, mortgages, pledges and other forms of securities.

Except for the above matters, the Company has no other connected transaction.



10. Directors', Supervisors' and Chief Executive's Interests in Securities under the Securities and Futures Ordinance of Hong Kong

As at 31 December 2020, 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 notified 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 notified to the Company and to the Stock Exchange, were as follows:

Long positions in the Shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage to total registered share capital
Liu Yun Long	Beneficial interest	2,500	0.00%	0.00%
Wang Quan Hong	Beneficial 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 notified 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 notified to the Group and to the Stock Exchange.

11. Annual Compensations of the Directors, Supervisors and Senior Management

For details of compensations of the current directors, supervisors and senior management paid by the Company in 2020, please refer to the "Directors, Supervisors, Senior Management and Employees" section of this report.

12. Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors of the Company or any of their respective associates (as defined under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any right to acquire benefits by means of the acquisition of shares in or debentures of the Company or had exercised any such right in 2020.

13. Share Option Scheme

The Company does not operate any share option scheme.

14. Substantial Shareholders

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



XI. Corporate Governance

15. Directors' and Supervisors' Interests in Transactions, Arrangements and Contracts

No directors or supervisors or any entity related to any of the directors of the Company has directly or indirectly interested in any transaction, arrangement or contract to which the Company or any of its subsidiaries is a party that has not been or has been in force in 2020 or at the end of 2020, and has a material relationship with the business of the Group.

16. Material Contracts

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 significance 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. Purchase, Sale or Redemption of Securities

None of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during 2020.

18. Pre-emptive Rights

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. Corporate Governance

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

20. Sufficiency of Public Float

According to information publicly available to the Company and to the best knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient public float throughout the current year and up to the date of this report.

21. Gearing Ratio

The Group's gearing ratio was approximately 65.19% (2019: approximately 68.81%) which is calculated based on the Group's total liabilities of approximately RMB3,374,065,925.58 (2019: approximately RMB3,946,792,835.99) and total assets of approximately RMB5,175,635,815.38 (2019: approximately RMB5,735,752,344.59).

22. Contingent Liabilities

As at 31 December 2020, the Group did not have any contingent liabilities except those disclosed in the "Commitments and Contingencies" of this report.

23. Major Investments, Acquisitions and Disposal

For the year ended 31 December 2020, except for those disclosed in this report, the Group did not carry out any major acquisitions or disposal of subsidiaries and associates or major investments, nor did it plan to make major investments or purchase capital assets in the future .



24. Tax Concessions and Exemptions

The Company is not aware of any tax concessions provided to shareholders due to their holding of the Company's listed securities.

25. Equity-linked Agreements

The Company has not entered into any equity-linked agreements at the end of the year ended 31 December 2020 or at any time during the year.

26. Business Review

Key Financial and Business Performance Indicators

Key financial and business performance indicators comprise profitability growth, return on equity and gearing ratio. Details of the analysis are set out in the section titled "Discussion and Analysis of Operations" of this annual report.

Risk Management

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 identified the major risks of the Group and regularly reviews its exposure to industry, policy, operational and currency risks.

Sustainability Initiatives

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 offices 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 significant 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 significant impact on the business and operation of the Company and its subsidiaries.



XI. Corporate Governance

XII. Corporate Governance Report

1. Compliance with the Code on Corporate Governance Practices

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 Code on Corporate Governance Practices (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, the Board considers the Company has complied with the code provisions as set out in the CG Code.

2. Securities Transactions by Directors

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 specific enquiries to all the Directors by the Company, no Directors have conducted securities transactions and indicated that they had breached the Model Code throughout 2020.

3. Composition and Responsibilities of the Board

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 confirmation of independence from each independent non-executive Director. The independent non-executive Directors were regarded as independent as the Board has confirmed that such Director does not have any other direct or indirect relationship with the Group. The Company also considers independent non-executive Directors to be independent. There is no financial, business or relative relationship between the members of the Board (including between the chairman and the chief executive officer).

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In 2020, the Board convened 10 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:

Members of Directors	Position	Number of meetings attended/ Total number of meetings
Yang Yun Long	Chairman (Appointed on 25 November 2020)	1/1
Yuan Rui	Deputy Chairman (Appointed on 25 November 2020)	1/1
Liu Yun Long	Chairman and executive director (Resigned on 6 November 2020)	6/6
Liu Min	Executive director	10/10
Zhang Yu Zhi	Executive director (Resigned on 6 November 2020)	6/6
Li Zhi Xin	Executive director	10/10
Yao You Ling	Non-executive director	10/10
Wang Quan Hong	Non-executive director	10/10
Tang Qing Bin	Independent non-executive director	10/10
Song Zhi Wang	Independent non-executive director	10/10
Cai Zhong Jie	Independent non-executive director	10/10

All the Directors have access to relevant information timely. They also have access to the advice and services of the company secretary or Board 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 significant potential conflict 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 conflict 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.



XI. Corporate Governance

4. Skills, Knowledge, Experience and Attributes of Directors

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. Induction and training

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 special Board committees in the past 12 months, and briefings with senior officers 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 reporting period, 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 Board 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	Type of trainings	Training matters
	(Note 1)	(Note 2)
Mr. Yang Yun Long (<i>Chairman</i>)	a, b	i, ii, iii, iv
Mr. Yuan Rui	a, b	i, ii, iii, iv
Mr. Liu Yun Long	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

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Note 1:

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

Note 2:

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

The Company also organized the Directors to take part in training activities which organized by SZSE, Shandong Securities Regulatory Bureau and China Association for Public Companies, 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. Directors' and officers' liability insurance and indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. Throughout 2020, no claim had been made against the Directors and the officers of the Company.

7. Chairman and General Manager

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.

The chairman of the Company is Mr. Yang Yun Long and the general manager is Mr. Liu Yun Long. Please refer to the section headed "Directors, Supervisors, Senior Management and Employees" in this report for their detailed biographical information.

8. Term of appointment of Directors

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 the section headed "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 fill 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 Directors confirmed their responsibilities in preparing the Group's financial statements

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



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

The financial 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 significant 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. Board Committees of the Company

(A) Report on the Performance of the Strategic Committee

The Strategic Committee was established on 26 December 2012 and its current members are Mr. Yang Yun Long, Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie, with Mr. Yang 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, SZSE and SEHK and the implementation rules of the Strategic Committee of the Board of the Company.

(B) Audit Committee

The Audit Committee was established on 20 March 2004 and its current members consist of three independent non-executive directors, being 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, SZSE, SEHK and the work instructions of the Audit Committee of the Board.

(1) The following major tasks were performed during 2020:

- ① It reviewed the write-off of bad debts in 2019 and the provision for asset impairment in 2019, which was submitted to the Board for approval;
- ② It conducted pre-audit communication with auditing institution engaged by the Company in respect of the 2019 financial report auditing on pre-auditing work, and reviewed the 2019 audit report and financial report, budgets for annual profit allocation and other issues, and submitted to the Board of the Company for approval;
- ③ It reviewed the 2020 first quarter financial report ended 31 March 2020, which was submitted to the Board for approval;
- ④ It reviewed the 2020 interim financial report ended 30 June 2020, which were submitted to the Board for approval;
- ⑤ It reviewed the 2020 third quarter financial report ended 30 September 2020, which were submitted to the Board for approval.

(2) It reviewed the proposal in relation to the re-appointment of external auditor by the Company.

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- (3) Auditing work conducted on the 2020 financial report of the Company was as follows:
- ① It reviewed the 2019 auditing plan and the related information of the Company on the meeting held by the annual auditing certified public accountants and the finance department of the Company prior to the onsite audit and negotiated and determined the schedule of an audit of the 2019 financial statements of the Company with ShineWing Certified Public Accountants;
 - ② It reviewed the draft of financial statements of the Company prior to an annual onsite audit performed by the auditing certified public accountants and issued its approval to audit;
 - ③ It kept in close contact with the auditors upon the annual onsite audit and issued a letter to the auditors to urge the submission of the auditors' report on schedule;
 - ④ The Audit Committee reviewed the financial statements of the Company again upon the issue of draft opinion by the annual auditing certified public accountants, and considered the financial statements of the Company true, accurate and complete to reflect the overall position of the Company;
 - ⑤ The Audit Committee held the meeting and reviewed the auditing summary report in the current year issued by the annual auditing certified public accountants and then submitted the report to the Board;
 - ⑥ It reviewed the report on internal audit and internal control of the Company for the year ended 31 December 2020.

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 financial 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:

Members of the Audit Committee	Duties	Number of meetings attended/Total number of meetings
Tang Qing Bin	Committee chairman and independent non-executive director	5/5
Song Zhi Wang	Independent non-executive director	5/5
Cai Zhong Jie	Independent non-executive director	5/5



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(C) Nomination Committee

The Nomination Committee was established on 18 January 2005 and its current members consist of one executive director, Mr. Yang Yun Long and three independent non-executive directors, being Mr. Song Zhi Wang, 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 three meeting in total. The individual attendance record of each member of the Nomination Committee is tabulated as follows:

Members of the Nomination Committee	Duties	Number of meetings attended/Total number of meetings
Song Zhi Wang	Committee chairman and independent non-executive director	3/3
Yang Yun Long	Chairman and executive director	/
Tang Qing Bin	Independent non-executive director	3/3
Cai Zhong Jie	Independent non-executive director	3/3

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 Officer.

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.

The nomination process includes the identification and confirmation of qualified personnel by the Nomination Committee, and the review and approval of such nominations by the Board. The selection criteria for directors provides that candidates must have rich experience in business related to the Company, company management or related professions, and must be able to effectively contribute to the Company's goals. When selecting suitable candidates, the Nomination Committee will consider talents with objective criteria (such as professional knowledge, relevant experience, personal ethics, etc.), and give due consideration to the benefits of Board diversity. Any committee member may propose a suitable director candidate, which will be discussed and approved by the Nomination Committee, and then the Board will consider and approve the nomination at its discretion.

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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 Remuneration and Assessment Committee

The Remuneration and Assessment Committee was established on 18 January 2005 and its current members consist of one executive director, Mr. Yang Yun Long and three independent non-executive directors, being Mr. Cai Zhong Jie, 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 2020. Attendance of each member of the committee is shown in the table below:

Members of the Remuneration and Assessment Committee	Duties	Number of meetings attended/Total number of meetings
Cai Zhong Jie	Committee chairman and independent non-executive director	1/1
Yang Yun Long	Chairman and executive director	/
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 sufficient resources to perform its duties. The current duties and responsibilities of the Remuneration and Assessment Committee are more specifically 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. Internal Control

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 and appropriate.

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial 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 2020, 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.



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During the review period, the Internal Audit Department issued reports to the senior management covering various operational and financial units of the Company and also conducted reviews of areas of concern identified by the Company's management. Management accounts are provided to the board of Directors quarterly and the Company performs internal control review and auditing annually.

The Board is also responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

- (1) To develop and review the Group's policies and practices on corporate governance and make recommendations;
- (2) To review and monitor the training and continuous professional development of Directors and senior management;
- (3) To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;
- (4) To develop, review and monitor the code of conduct and compliance manual to the employees and directors of the Group; and
- (5) To review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

12. Ability of Going Concern

As of 31 December 2020, there was no uncertainty or conditions of a material nature that would affect the Company's ability to continue as a going concern.

13. Company Secretary

Mr. Chan Wing Nang, Billy is the secretary of the Company. For his biographical details, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" in this report.

For the year ended 31 December 2020, Mr. Chan Wing Nang, Billy has confirmed that he has received no less than 15 hours of relevant professional training.

14. Investor Relations

In 2020, through investor visit, phone call and mails, the Company had effective communication with investors and maintained good communication with shareholders, so that the Company was able to meet investors' need for information to the greatest extent, and kept investor informed of the business development of the Company on a timely and accurate manner. On 9 April 2020, the Company held an annual performance briefing meeting on quanjing.com to interact and communicate with investors online. On 29 September 2020, the Company participated in the online collective reception day for investors of listed companies in Shandong, and actively communicated with the investors online and responded to investors' questions in a timely manner to help them address their doubts.

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During the reporting period, the Articles of Association of the Company was amended one time. The Articles of Association of the Company can be viewed on the website of the Company and the website of the Stock Exchange. In order to improve corporate governance of the Company, according to the relevant legal and regulatory requirements under the “Company Law of the People’s Republic of China” (中華人民共和國公司法), the “Securities Law of the People’s Republic of China” (中華人民共和國證券法), the “Rules Governing Listing of Shares on Shenzhen Stock Exchange” (深圳證券交易所股票上市規則) and the “Guidelines of the Shenzhen Stock Exchange for Standardized Operation of Listed Companies” (深圳證券交易所上市公司規範運作指引), the Board proposed at the extraordinary general meeting (the “EGM”) held on 3 March 2021 for the shareholders to approve the proposed amendments to the Articles of Association of the Company. Details of the proposed amendments to Articles of Association of the Company are set out in the Company’s circular dated 8 February 2021. The special resolution of the proposed amendments to Articles of Association of the Company has been formally approved at the EGM.

15. Others

There is no incompliance of Company Law and relevant requirements of CSRC in respect of corporate governance.

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 confidential 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.

16. Communication with shareholders

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;



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- (e) Response to inquiries from shareholders or media by the Company Secretary or Board 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.

Purposes of general meetings

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 2020, the Company held three general meetings (being the annual general meeting held on 19 June 2020, extraordinary general meeting held on 25 November 2020 and 4 December 2020). The attendance record of the Directors at the general meetings is set out below:

Attendance record of the Directors

Name	Attended in person
Mr. Yang Yun Long	1/3
Mr. Yuan Rui	/
Mr. Liu Yun Long	3/3
Mr. Liu Min	3/3
Mr. Zhang Yu Zhi	1/3
Mr. Li Zhi Xin	3/3
Mr. Yao You Ling	3/3
Mr. Wang Quan Hong	2/3
Mr. Tang Qing Bin	2/3
Mr. Song Zhi Wang	1/3
Mr. Cai Zhong Jie	1/3

Notice of annual general meeting, annual report, financial 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.

17. Objection to related matters of the Company raised by independent directors

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



18. Other description of discharge of duties by independent directors

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.

In 2020, the Company's auditor received a remuneration of RMB1.05 million for the provision of audit services and a remuneration of RMB400,000 for the provision of non-audit services.

The changes of auditors in last three years: the Company has appointed ShineWing Certified Public Accountants as its auditor in the past three years.

19. Shareholders' Rights

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) Convening of extraordinary general meeting on requisition by shareholders

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 specified.
- (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.



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- (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 notification 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) Procedures for putting forward proposals at a general meeting

The shareholders that individually or collectively hold more than 3% shares in the Company, they can put forward proposals and submit to convene 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) Enquiries to the Board

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

	For Holder of H Shares	For Holder of Domestic Shares
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. 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



XIII Financial Statements

Auditor's Report

Type of audit opinions	Standard unqualified opinions
Date of signing of auditors report	26 March 2021
Name of auditors	ShineWing Certified Public Accountants
Auditors report file number	XYZH/2021JNAA30074
Names of the CPAs	Kan Jing Ping, Zhang Chao



Main text of the auditor's report

To the shareholders of Shandong Molong Petroleum Machinery Company Limited:

I. Opinion

We have audited the financial statements of Shandong Molong Petroleum Machinery Company Limited (hereinafter referred to as "Shandong Molong"), which comprise the consolidated and parent company's balance sheet as at 31 December 2020, the consolidated and parent company's income statement, the consolidated and parent company's cash flow statement and the consolidated and parent company's statement of changes in shareholders' equity for 2020, as well as notes to the financial statements.

In our opinion, the accompanying financial statements comply with the requirements of the Accounting Standards for Business Enterprises in all material respects, and fairly present the consolidated and parent company's financial position of Shandong Molong as at 31 December 2020, as well as the consolidated and parent company's results of operations and cash flows for 2020.

II. Basis for Audit Opinion

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

III. Key Audit Matters

The key audit matters are the matters that we consider to be the most important for auditing financial statements in this period according to professional judgement. The response to these matters is based on overall audit of the financial statements and the formation of our audit opinion thereon, and we do not comment on these matters separately.

1. Material assets disposal

Key Audit Matter

As stated in note VII.50 to the consolidated financial statements of Shandong Molong, as at 31 December 2020, gains on assets disposal of Shandong Molong amounted to RMB35,335.82 ten thousand, which was the main source of the profit of the Company in the year.

The material assets disposal has significant impact on financial statements of Shandong Molong for the year of 2020. Therefore, we identify the material assets disposal as a key audit matter.

How the matter was addressed in the audit

We mainly performed the following audit procedures:

- Understand and evaluate the effectiveness of the design and operation of internal controls related to the assets disposal;
- Review the contracts of the material assets transfer and related resolutions of the Board and the general meeting;
- Discuss with the management of Shandong Molong to understand the purpose of the above assets disposal and evaluate the impact of such assets disposal on the operating results and ability of the Company as a going concern; survey the purchaser and interview with the people related to the purchaser so as to understand the purchaser's purchasing purpose for analyzing the authenticity of the transaction above and whether it constitutes a connected transaction; evaluate whether the act of transaction has commercial substance;
- Obtain the evaluation report of the above assets disposal, review the qualification and professional competence of the appraisal association; review the evaluation report of the assets for disposal through the work of evaluation professionals so as to determine whether the evaluation value is reasonable and whether the transaction price is fair;
- We learn the source of purchase funds and payment plan from the purchaser and consider its ability to fulfill obligations; we check the bank slip concerning the consideration of assets transfer, documentary transfer tax and information about the transfer and handover of relevant assets so as to determine whether the transaction was completed;
- Review the accuracy of the calculation of gains on assets disposal and the normativity of accounting treatments, and assess whether the representation and disclosure of the above assets disposal is appropriate.



2. Impairment of accounts receivable

Key Audit Matter

As mentioned in Notes V.12 and VII.3 and VII.48 to the consolidated financial statements of Shandong Molong, as at 31 December 2020, Shandong Molong had accounts receivables of RMB41,133.95 ten thousand and a balance of provision for bad debts of RMB12,341.89 ten thousand.

There may be risks in recovery of accounts receivables and the assessment of bad debts involves significant management judgment and estimates. Therefore, we identify the impairment of accounts receivables as a key audit matter.

How the matter was addressed in the audit

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 financial credit status of debtors for the year, to determine whether the credit risk of receivables has increased significantly, thereby assessing the reasonableness of the credit risk assessment and identification 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 sufficient and reasonable, and remeasuring to confirm 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 financial statements.

3. Impairment of Inventories

Key Audit Matter

As mentioned in Notes V.15, VII.8 and VII.49 to the consolidated financial statements of Shandong Molong, as at 31 December 2020, Shandong Molong had a balance of inventories of RMB79,989.41 ten thousand and a balance of provision for impairment of inventories of RMB1,251.65 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 significant judgments and assumptions in its predictions. Therefore, we make provision for impairment of inventory a key audit matter.

How the matter was addressed in the audit

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 2020. 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 financial statements.



IV. Other Information

The management of Shandong Molong (hereinafter referred to as the "Management") is responsible for the other information. The other information includes the information covered in the Shandong Molong 2020 annual report, but does not include the financial statements and the audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, the Management is responsible for assessing Shandong Molong's ability to continue as a going concern, disclosing issues related to going concern (if applicable) and applying the going-concern assumption of accounting unless the Management plans to liquidate the Company, terminate operations, or choose other realistic choices.

Those governance is responsible for overseeing Shandong Molong's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or errors, and to issue an auditor's report that contains our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements may be caused by fraud or errors, and are generally considered material if reasonable expected misstatement alone or together may affect the financial statement users to make economic decisions on the basis of financial statements.

During the course of audit in accordance with auditing standards, we use professional judgment and maintain professional skepticism. We also carry out the following works:

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



- (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 significant 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 financial statements in accordance with the auditing standards or, if such disclosures are inadequate, we should express a modified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, and also evaluate whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient and appropriate audit evidence regarding the financial information of Shandong Molong entities or business activities to express an opinion on the consolidated financial 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, significant audit findings and other issues, including any significant internal control deficiencies that we identified 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 financial 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 benefits produced in the public interest.

Shinewing Certified Public Accountants

PRC certified public accountants: (Project Partner)

PRC certified public accountants:

Beijing, China

26 March 2021



Consolidated Balance Sheet

Unit: RMB

Item	31 December 2020	31 December 2019
Current assets:		
Monetary funds	759,979,803.03	539,942,128.18
Settlement Deposits	—	—
Lending funds	—	—
Financial assets held for trading	—	—
Derivative financial assets	—	—
Bills receivable	164,945,170.51	257,635,279.11
Accounts receivable	287,920,595.28	507,559,024.95
Loans and advances	951,005.30	17,046,915.97
Financing receivables	33,575,777.00	96,155,523.75
Prepayments	24,755,942.84	41,184,464.45
Insurance receivables	—	—
Reinsurance receivables	—	—
Reinsurance contract reserves receivable	—	—
Other receivables	156,486,818.72	29,289,226.01
Including: Interests receivable	—	2,308,030.91
Dividends receivable	—	—
Purchases of sell-back financial assets	—	—
Inventories	787,377,614.78	934,907,320.58
Contract assets	—	—
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	21,904,932.90	35,206,341.97
Total current assets	2,237,897,660.36	2,458,926,224.97

Consolidated Balance Sheet



Unit: RMB

Item	31 December 2020	31 December 2019
Non-current assets:		
Loans and advances	—	—
Debt investments	—	—
Other debt investments	—	—
Long-term receivables	—	—
Long-term equity investments	2,314,697.29	2,557,061.01
Investments in other equity instruments	—	—
Other non-current financial assets	—	—
Investment properties	—	—
Fixed assets	2,493,577,016.35	2,726,157,716.13
Construction-in-progress	7,620,542.62	55,034,853.27
Productive biological assets	—	—
Oil and gas assets	—	—
Right-of-use assets	4,591,910.73	—
Intangible assets	393,688,845.70	443,223,548.01
Development expenditures	—	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	35,217,034.73	40,231,904.91
Other non-current assets	728,107.60	9,621,036.29
Total non-current assets	2,937,738,155.02	3,276,826,119.62
Total assets	5,175,635,815.38	5,735,752,344.59



Consolidated Balance Sheet

Unit: RMB

Item	31 December 2020	31 December 2019
Current liabilities:		
Short-term borrowings	2,054,225,378.29	1,929,510,883.39
Borrowings from the central bank	—	—
Placements	—	—
Financial liabilities held for trading	—	—
Derivative financial liabilities	—	—
Bills payable	121,472,511.10	281,588,603.88
Accounts payable	648,352,428.48	924,020,613.80
Receipts in advance	—	—
Contract liabilities	83,749,468.02	32,463,654.22
Proceeds from disposal of buy-back financial assets	—	—
Customer bank deposits and due to banks and other financial institutions	—	—
Securities brokerage deposits	—	—
Securities underwriting brokerage deposits	—	—
Salaries payable	54,493,884.87	57,276,942.10
Taxes payable	27,192,105.60	13,393,461.51
Other payables	43,853,326.94	61,423,531.25
Including: Interests payable	—	6,389,751.57
Dividends payable	—	—
Brokerage and commission payables	—	—
Reinsurance payables	—	—
Liabilities held for sale	—	—
Non-current liabilities due within one year	139,784,923.46	482,636,906.78
Other current liabilities	50,195,434.08	87,557,572.20
Total current liabilities	3,223,319,460.84	3,869,872,169.13

Consolidated Balance Sheet



Unit: RMB

Item	31 December 2020	31 December 2019
Non-current liabilities:		
Insurance contract reserves	—	—
Long-term borrowings	114,063,150.53	—
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Lease liabilities	4,968,359.84	—
Long-term payables	4,585,000.00	58,045,884.69
Long-term salaries payable	—	—
Estimated liabilities	14,392,824.64	5,734,176.25
Deferred revenue	7,176,480.86	7,386,306.54
Deferred income tax liabilities	5,560,648.87	5,754,299.38
Other non-current liabilities	—	—
Total non-current liabilities	150,746,464.74	76,920,666.86
Total liabilities	3,374,065,925.58	3,946,792,835.99
Owners' equity:		
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	(2,015,577.82)	(3,055,060.57)
Special reserve	—	—
Surplus reserve	187,753,923.88	187,753,923.88
General risk provision	11,236.91	11,236.91
Undistributed profits	(66,030,056.80)	(98,208,687.79)
Total equity attributable to owners of the parent company	1,780,737,084.59	1,747,518,970.85
Minority interests	20,832,805.21	41,440,537.75
Total owners' equity	1,801,569,889.80	1,788,959,508.60
Total liabilities and owners' equity	5,175,635,815.38	5,735,752,344.59

Legal representative:
Yang Yun Long

Accountant-in-charge:
Liu Min

Partner-in-charge:
Zhang Xue Mei



Balance Sheet of the Parent Company

Item	Unit: RMB	
	31 December 2020	31 December 2019
Current assets:		
Monetary funds	708,481,226.15	515,419,364.09
Financial assets held for trading	—	—
Derivative financial assets	—	—
Bills receivables	164,945,170.51	257,635,279.11
Accounts receivable	442,232,065.03	614,469,903.11
Financing receivables	10,980,000.00	13,745,135.20
Prepayments	618,700,408.46	466,070,802.57
Other receivables	756,323,484.10	742,034,322.28
Including: Interests receivable	—	2,308,030.91
Dividends receivable	—	—
Inventories	511,814,843.00	627,068,241.69
Contract assets	—	—
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	3,749,202.40	—
Total current assets	3,217,226,399.65	3,236,443,048.05

Balance Sheet of the Parent Company



Unit: RMB

Item	31 December 2020	31 December 2019
Non-current assets:		
Debt investments	—	—
Other debt investments	—	—
Long-term receivables	—	—
Long-term equity investments	1,144,019,921.73	1,144,019,921.73
Investments in other equity instruments	—	—
Other non-current financial assets	—	—
Investment properties	—	—
Fixed assets	889,048,148.96	1,056,055,848.38
Construction-in-progress	—	486,984.53
Productive biological assets	—	—
Oil and gas assets	—	—
Right-of-use assets	4,591,910.73	—
Intangible assets	91,321,208.29	132,088,784.23
Development expenditures	—	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	33,048,514.20	37,883,413.51
Other non-current assets	378,107.60	—
Total non-current assets	2,162,407,811.51	2,370,534,952.38
Total assets	5,379,634,211.16	5,606,978,000.43



Balance Sheet of the Parent Company

Unit: RMB

Item	31 December 2020	31 December 2019
Current liabilities:		
Short-term borrowings	1,543,791,887.49	1,765,910,883.39
Financial liabilities held for trading	—	—
Derivative financial liabilities	—	—
Bills payable	692,839,443.49	456,088,603.88
Accounts payable	219,825,699.80	318,744,403.11
Receipts in advance	—	—
Contract liabilities	55,899,703.37	28,059,132.72
Salaries payable	34,757,933.77	37,751,734.57
Taxes payable	23,942,984.02	10,297,524.70
Other payables	139,153,160.81	151,446,321.31
Including: Interests payable	—	5,214,764.95
Dividends payable	—	—
Liabilities held for sale	—	—
Non-current liabilities due within one year	63,235,847.52	329,697,408.24
Other current liabilities	46,582,393.75	87,557,572.20
Total current liabilities	2,820,029,054.02	3,185,553,584.12
Non-current liabilities:		
Long-term borrowings	—	—
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Lease liabilities	4,968,359.84	—
Long-term payables	4,585,000.00	58,045,884.69
Long-term salaries payable	—	—
Estimated liabilities	14,392,824.64	5,734,176.25
Deferred revenue	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	23,946,184.48	63,780,060.94
Total liabilities	2,843,975,238.50	3,249,333,645.06

Balance Sheet of the Parent Company



Item	Unit: RMB	
	31 December 2020	31 December 2019
Owners' equity:		
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 profits	686,906,157.86	508,891,540.57
Total owners' equity	2,535,658,972.66	2,357,644,355.37
Total liabilities and owners' equity	5,379,634,211.16	5,606,978,000.43



Consolidated Income Statement

Unit: RMB

Item	2020	2019
I. Total operating revenue	3,009,719,029.66	4,388,904,215.91
Including: Operating revenue	3,009,719,029.66	4,388,904,215.91
Interest income	—	—
Insurance premium earned	—	—
Brokerage and commission income	—	—
II. Total operating costs	3,342,727,781.59	4,547,980,146.59
Including: Operating costs	2,902,436,729.61	4,034,622,745.27
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	19,116,487.72	25,254,426.66
Selling expenses	14,948,332.92	84,340,449.53
Administrative expenses	194,470,836.86	193,606,016.95
Research and development expenses	52,542,810.96	63,830,329.90
Finance expenses	159,212,583.52	146,326,178.28
Including: Interest expenses	137,373,401.15	159,146,751.07
Interest income	5,507,436.70	8,791,007.22
Add: Other gains	17,770,915.00	14,032,294.31
Investment income	(39,767.09)	3,384,366.15
Including: Gains on investment in associates and joint ventures	(242,363.72)	(106,457.89)
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	1,142,033.60	(17,003,268.54)
Asset impairment losses	(1,047,770.83)	(37,538,995.67)
Gains on disposal of assets	353,358,239.23	7,152,864.22
III. Operating profit	38,174,897.98	(189,048,670.21)
Add: Non-operating income	7,928,370.13	9,730,641.34
Less: Non-operating expenses	28,574,721.15	35,909,103.13

Consolidated Income Statement



Unit: RMB

Item	2020	2019
IV. Total profit	17,528,546.96	(215,227,132.00)
Less: Income tax expenses	6,073,146.60	9,680,705.56
V. Net profit	11,455,400.36	(224,907,837.56)
(I) By business continuity		
1. Net profit from continuing operations	11,455,400.36	(224,907,837.56)
2. Net profit from discontinued operations	—	—
(II) By attributable ownership		
1. Net profit attributable to the shareholders of the parent company	32,178,630.99	(196,309,267.90)
2. Minority interests	(20,723,230.63)	(28,598,569.66)
VI. Other comprehensive income, net of tax	1,154,980.84	(292,277.16)
Other comprehensive income attributable to the owners of the parent company, net of tax	1,039,482.75	(263,049.44)
(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	1,039,482.75	(263,049.44)
1. Other comprehensive income that may be transferred to profit or loss under equity accounting	—	—
2. Fair value changes in other debt investments	—	—
3. Reclassification of financial assets to other comprehensive income	—	—
4. Provision for credit impairment on other debt investments	—	—
5. Cashflow hedge reserve	—	—
6. Exchange differences on translation of foreign financial statements	1,039,482.75	(263,049.44)
7. Others	—	—
Other comprehensive income attributable to minority shareholders, net of tax	115,498.09	(29,227.72)
VII. Total comprehensive income	12,610,381.20	(225,200,114.72)
Total comprehensive income attributable to owners of the parent company	33,218,113.74	(196,572,317.34)
Total comprehensive income attributable to minority shareholders	(20,607,732.54)	(28,627,797.38)
VIII. Earnings per share:		
(I) Basic earnings per share	0.04	(0.25)
(II) Diluted earnings per share	0.04	(0.25)

Legal representative:
Yang Yun Long

Accountant-in-charge:
Liu Min

Partner-in-charge:
Zhang Xue Mei



Income Statement of the Parent Company

Unit: RMB

Item	2020	2019
I. Operating revenue	2,544,622,887.97	3,660,946,787.68
Less: Operating costs	2,434,466,846.40	3,256,862,423.86
Taxes and surcharges	13,378,251.90	15,857,696.55
Selling expenses	13,920,658.12	71,506,819.84
Administrative expenses	69,313,944.20	51,787,498.24
Research and development expenses	52,542,810.96	63,830,329.90
Finance expenses	125,784,024.09	112,381,323.00
Including: Interest expenses	107,558,200.54	125,378,366.81
Interest income	5,617,437.36	6,878,736.53
Add: Other gains	17,155,249.98	686,605.41
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	7,576,272.29	(9,102,757.01)
Asset impairment losses	(110,521.57)	(11,934,055.72)
Gain on disposal of assets	353,369,095.65	6,875,505.09
II. Operating profit	213,206,448.65	76,462,414.55
Add: Non-operating income	722,968.78	2,705,423.97
Less: Non-operating expenses	31,079,900.83	34,822,006.48
III. Total profit	182,849,516.60	44,345,832.04
Less: Income tax expenses	4,834,899.31	6,844,612.26
IV. Net profit	178,014,617.29	37,501,219.78
(I) Net profit from continuing operations	178,014,617.29	37,501,219.78
(II) Net profit from discontinued operations	—	—

Income Statement of the Parent Company



Unit: RMB

Item	2020	2019
V. Other comprehensive income, net of tax		
(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	—	—
1. Other comprehensive income that may be transferred to profit or loss under equity accounting	—	—
2. Fair value changes in other debt investments	—	—
3. Reclassification of financial assets to other comprehensive income	—	—
4. Provision for credit impairment on other debt investments	—	—
5. Cash flow hedge reserve	—	—
6. Exchange differences on translation of foreign financial statements	—	—
7. Others	—	—
VI. Total comprehensive income	178,014,617.29	37,501,219.78
VII. Earnings per share:		
(I) Basic earnings per share	—	—
(II) Diluted earnings per share	—	—



Consolidated Statement of Cash Flows

Unit:RMB

Item	2020	2019
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	3,330,527,492.89	4,460,437,940.49
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 and investments	—	—
Cash received of interests, fees and commissions	—	—
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	11,484,131.39	8,582,214.09
Cash received relating to other operating activities	62,145,237.72	326,650,980.55
Sub-total of cash inflows from operating activities	3,404,156,862.00	4,795,671,135.13
Cash paid for purchasing goods and receiving services	2,746,478,478.65	3,455,293,474.33
Net increase in loans and advances to customers	(13,751,418.15)	(12,374,045.25)
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	218,845,466.30	270,731,354.95
Cash paid for taxes	64,671,810.63	136,776,376.68
Other cash paid relating to operating activities	181,011,346.51	256,890,556.34
Sub-total of cash outflows from operating activities	3,197,255,683.94	4,107,317,717.05
Net cash flows generated from operating activities	206,901,178.06	688,353,418.08

Consolidated Statement of Cash Flows



Unit:RMB

Item	2020	2019
II. Cash flows from investing activities:	—	—
Cash received from disposal of investments	—	104,900,000.00
Cash received from gains on investments	202,596.63	3,490,824.04
Net cash from disposal of fixed assets, intangible assets and other long-term assets	359,483,822.99	9,974,199.66
Net cash received from disposal of subsidiaries and other business units	—	—
Other cash received relating to investing activities	—	—
Sub-total of cash inflows from investing activities	359,686,419.62	118,365,023.70
Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	45,411,071.25	77,287,258.35
Cash paid for acquisition of investments	—	—
Net increase in pledged loans	—	—
Net cash paid for acquisition of subsidiaries and other business units	—	—
Other cash paid relating to investing activities	—	—
Sub-total of cash outflows from investing activities	45,411,071.25	77,287,258.35
Net cash flows generated from investing activities	314,275,348.37	41,077,765.35



Consolidated Statement of Cash Flows

Unit:RMB

Item	2020	2019
III. Cash flows from financing activities:		
Cash received from capital contributions	—	—
Including: Cash received from minority shareholder investment by subsidiary	—	—
Borrowings received	2,852,941,196.24	3,178,031,000.00
Other cash received relating to financing activities	—	—
Sub-total of cash inflows from financing activities	2,852,941,196.24	3,178,031,000.00
Cash repayments of amounts borrowed	3,024,882,265.41	3,830,953,614.09
Cash paid for dividend and profit distribution or interest payment	134,196,138.89	164,324,997.14
Including: Dividend and profit paid to minority shareholders by subsidiary	—	—
Other cash paid relating to financing activities	—	—
Sub-total of cash outflows from financing activities	3,159,078,404.30	3,995,278,611.23
Net cash flows generated from financing activities	(306,137,208.06)	(817,247,611.23)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(11,306,958.07)	5,148,781.78
V. Net increase in cash and cash equivalents	203,732,360.30	(82,667,646.02)
Add: Balance of cash and cash equivalents at the beginning of the period	496,256,836.18	578,924,482.20
VI. Balance of cash and cash equivalents at the end of the period	699,989,196.48	496,256,836.18

Statement of Cash Flows of the Parent Company



Unit: RMB

Item	2020	2019
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	2,728,716,449.21	4,258,002,820.97
Receipts of tax refunds	11,386,191.32	4,762,757.02
Cash received relating to other operating activities	57,281,900.22	333,011,999.31
Sub-total of cash inflows from operating activities	2,797,384,540.75	4,595,777,577.30
Cash paid for purchasing goods and receiving services	1,979,664,494.16	3,727,359,023.14
Cash paid to and on behalf of employees	140,012,760.59	168,615,466.73
Cash paid for taxes	55,960,222.84	58,046,650.83
Other cash paid relating to operating activities	93,653,455.62	495,164,316.38
Sub-total of cash outflows from operating activities	2,269,290,933.21	4,449,185,457.08
Net cash flows generated from operating activities	528,093,607.54	146,592,120.22
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	350,353,720.67	8,518,464.36
Net cash received from disposal of subsidiaries and other business units	—	—
Other cash received relating to investing activities	—	—
Sub-total of cash inflows from investing activities	350,353,720.67	9,784,884.85
Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	13,478,632.52	33,516,639.03
Cash paid for acquisition of investments	—	—
Net cash paid for acquisition of subsidiaries and other business units	—	—
Other cash paid relating to investing activities	—	—
Sub-total of cash outflows from investing activities	13,478,632.52	33,516,639.03
Net cash flows generated from investing activities	336,875,088.15	(23,731,754.18)



Statement of Cash Flows of the Parent Company

Unit: RMB

Item	2020	2019
III. Cash flows from financing activities:		
Cash received from capital contributions	—	—
Borrowings received	2,103,910,240.90	2,684,431,000.00
Other cash received relating to financing activities	—	—
Sub-total of cash inflows from financing activities	2,103,910,240.90	2,684,431,000.00
Cash repayments of amounts borrowed	2,658,342,766.87	2,774,436,310.20
Cash paid for dividend and profit distribution or interest payment	106,295,904.76	129,484,744.81
Other cash paid relating to financing activities	—	—
Sub-total of cash outflows from financing activities	2,764,638,671.63	2,903,921,055.01
Net cash flows generated from financing activities	(660,728,430.73)	(219,490,055.01)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(11,157,610.90)	5,107,873.72
V. Net increase in cash and cash equivalents	193,082,654.06	(91,521,815.25)
Add: Balance of cash and cash equivalents at the beginning of the period	471,734,072.09	563,255,887.34
VI. Balance of cash and cash equivalents at the end of the period	664,816,726.15	471,734,072.09

Consolidated Statement of Changes in Owners' Equity



Amounts for the current period

Unit: RMB

2020

Item	Equity attributable to owners of the parent company											Total owners' equity			
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits		Others	Sub-total	Minority interests
I. Balance at the end of the same period last year	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
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	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
III. Changes in the current period	—	—	—	—	—	—	1,039,482.75	—	—	—	32,178,630.99	—	33,218,113.74	(20,607,732.54)	12,610,381.20
(i) Total comprehensive income	—	—	—	—	—	—	1,039,482.75	—	—	—	32,178,630.99	—	33,218,113.74	(20,607,732.54)	12,610,381.20
(ii) Owners' capital contribution and reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
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. Change for the period	—	—	—	—	—	—	26,986,008.44	—	—	—	—	—	26,986,008.44	—	26,986,008.44
2. Utilised during the period	—	—	—	—	—	—	26,986,008.44	—	—	—	—	—	26,986,008.44	—	26,986,008.44
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	863,169,158.42	—	(2,015,577.82)	—	187,753,923.88	11,236.91	(66,030,056.80)	—	1,780,737,084.59	20,832,805.21	1,801,569,889.80



Consolidated Statement of Changes in Owners' Equity

Amounts for the prior period

Unit: RMB

Item	Equity attributable to owners of the parent company										Total owners' equity				
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision		Undistributed profits	Others	Sub-total	Minority interests
I. Balance at the end of the same period last year	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 year	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 holders	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
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	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Utilised during the period	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(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

Statement of Changes in Owners' Equity of the Parent Company



Amounts for the current period

Unit: RMB

2020

Item	Other equity instruments								Total owners' equity			
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve		Surplus reserve	Undistributed profits	Others
I. Balance at the end of the same period last year	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	508,891,540.57	—	2,357,644,355.37
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	508,891,540.57	—	2,357,644,355.37
III. Changes in the current period	—	—	—	—	—	—	—	—	—	—	—	—
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—
(ii) Owners' capital contribution and reduction	—	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit 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 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	—	—	—	—	—	—	—	—	—	—	—	—
2. Utilised during the period	—	—	—	—	—	—	—	—	—	—	—	—
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	686,906,157.86	—	2,535,658,972.66



Statement of Changes in Owners' Equity of the Parent Company

Amounts for the prior period

Unit: RMB

Item	2019										Total owners' equity	
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits		Others
I. Balance at the end of the same period last year	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 at the beginning of the current year	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	471,390,320.79	—	2,320,143,135.59
III. Changes in the current period												
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	37,501,219.78	—	37,501,219.78
(ii) Owners' capital contribution and reduction	—	—	—	—	—	—	—	—	—	37,501,219.78	—	37,501,219.78
1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instrument holders	—	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of state-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit 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 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	—	—	—	—	—	—	—	—	—	—	—	—
2. Utilised during the period	—	—	—	—	—	—	—	—	—	—	—	—
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	508,891,540.57	—	2,357,644,355.37

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

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 Office 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 Xu Ke [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.

As at 31 December 2020, the Company had a registered capital of RMB797,848,400.00, divided into a total of 797,848,400 shares.

The Company’s place of registration and place of business is No. 999 Wen Sheng Street, Shouguang City, Shandong Province.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

I. General Information of the Company (continued)

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 actual controller of the Company is Shandong Shouguang Jinxin Investment Development Holdings Group Limited and the ultimate controller of the Company is State-owned Assets Supervision and Administration Bureau of Shouguang City.

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 (Shouguang 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 Materials Co., Ltd.). Compared with last year, we reduced 2 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.

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. Basis of preparation

The financial 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. Significant Accounting Policies and Accounting Estimates” of this note.

2. Going concern

As at 31 December 2020, the Group’s current liabilities in the consolidated financial statements exceeded its current assets by RMB98,542.18 ten thousand. Currently, the Group is in smooth partnership with the associated financial institutions, with financial support of RMB35,000 ten thousand provided by the controlling shareholder Shandong Shouguang Jinxin Investment Development Holdings Group Limited to the Company.

As at the disclosure date of the financial report, the Group had a total of unutilised credit line from financial institutions of RMB567 million. The Group has plenty of orders not fulfilled and has steady cash flow for operating activities. The products newly developed by the Company had a relatively positive market prospect.



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

II. Basis of Preparation of the Financial Statements (*continued*)

2. Going concern (*continued*)

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 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

Specific accounting policies and accounting estimates:

The Group has adopted the accounting policies and accounting estimates specific to the characteristics of its actual production and operation, including the business cycle, recognition and measurement of financial 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. Statement of compliance with the ASBEs

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

2. Accounting period

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

3. Business cycle

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 classification of the liquidity of assets and liabilities.

4. Reporting currency

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

5. Accounting for business combinations under common and uncommon control

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.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

5. Accounting for business combinations under common and uncommon control (continued)

The identifiable 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 identifiable net assets of the acquiree shall be recognized as goodwill. If the combination costs are less than the fair value of the identifiable net assets of the acquiree, the fair value of the identifiable 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 identifiable net assets after review, the balance shall be accounted for as non-operating income for the current period.

6. Preparation of consolidated financial statements

The Group incorporates all controlled subsidiaries and structured entities into the scope of the consolidated financial statements.

When the Group prepares the consolidated financial statements, necessary adjustments will be made to that subsidiary's financial statements in preparing the consolidated financial 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.

Significant intra-group transactions, current balance and unrealized profits 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 profit for the current period, other comprehensive income and total comprehensive income attributable to minority interests shall be presented in the consolidated financial statements as "minority interests, profit 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 flows 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 financial statements, relevant items in the financial 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.



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

6. Preparation of consolidated financial statements (continued)

In preparing consolidated financial statements, equity interests acquired by two or more transactions, which finally 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 financial 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 profit 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 profit or loss for the current period in the comparative statements, respectively.

The operating results and cash flows 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 financial statements, the financial statements of the subsidiary shall be adjusted based on the fair value of the identifiable 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 finally 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 defined benefit 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 profit or loss, other comprehensive income and profit 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 financial statements. Adjustments shall be made to retained earnings in the event that capital reserves are not sufficient.

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 financial 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 profit or loss upon losing of controls.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

6. Preparation of consolidated financial statements (continued)

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. Classifications of joint arrangement and accounting treatment of common cooperation

The Group incorporates all controlled subsidiaries and structured entities into the scope of the consolidated financial statements.

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 profits and losses generated in above transactions belonging to other joint operation parties.

8. Criteria for determination of cash and cash equivalents

Cash in cash flow 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 insignificant risk of changes in value.

9. Foreign currency operations and translation of foreign currency statements

(1) Foreign currency transactions

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 profit 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) Translation of foreign currency financial statements

Assets and liabilities in foreign currency balance sheet are translated at the spot rate prevailing at the balance sheet date. Except for "undistributed profits", 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 flow dominated in foreign currency is translated at the annual average exchange rate. Effects on cash arising from the change of exchange rate are presented as separate item in the cash flow statement.

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial instruments

Financial asset or financial liability is recognised when the Group becomes a contractual party of a financial instrument.

(1) Financial assets

1) *Classification, recognition and measurement of financial assets*

The Group classifies its financial assets into the following category based on the business model within which the financial asset is managed and the characteristics of contractual cashflow of the financial asset: financial assets at amortised cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss for the period.

A financial asset is classified as financial assets at amortised cost if it meets both of the following conditions: ① It is managed within a business model whose objective is to collect contractual cash flows. ② The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially measured at fair value, with the related transaction costs included in the amount initially recognised. The financial assets are subsequently measured at amortised cost. Except for those designated as hedged items, any difference between the initially recognised amount and the amount at maturity is amortised using effective interest method while the profit or loss on amortization, depreciation and currency exchange and the profit or loss incurred at the time of de-recognition shall be recorded in the profit or loss of the current period.

Financial assets are classified as financial assets at fair value through other comprehensive income if both of the following conditions are met: ① the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and ② the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal. Financial assets of this kind are initially measured at fair value and relevant transaction costs are recorded in the initially recognized amount. Except for those designated as hedged items, other profit or loss on financial assets of this kind (excluding the credit impairment loss or gain, the profit or loss on currency exchange, interests on financial assets measured by effective interest method) shall be recorded in other comprehensive income. At the time of derecognition of financial assets, the cumulative profit or loss previously recorded in other comprehensive income shall be released from other comprehensive income and recorded in the profit or loss of the current period.

The Group recognizes interest income using the effective interest method. The interest income is calculated by applying the effective interest rate to the carrying amount of a financial asset, with the following exceptions: ① For a purchased or originated credit-impaired financial asset, whose interest income is calculated since initial recognition by applying the credit-adjusted effective interest rate to its amortized cost. ② For a financial asset that is not a purchased or originated credit-impaired financial asset but has subsequently become credit-impaired, whose interest income is then calculated by applying the effective interest rate to its amortized cost.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial instruments (continued)

(1) Financial assets (continued)

1) Classification, recognition and measurement of financial assets (continued)

The Group designates non-trading equity instrument investments as financial 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 profit 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 profits 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 classified as financial assets at amortized cost and financial assets at fair value through other comprehensive income, the Group classifies the remaining financial assets as financial assets at fair value through profit or loss for the period. Financial assets of this kind are initially measured at fair value and relevant transaction costs are included directly in the initially recognized amount. The profit or loss on financial assets of this kind is included in the profit or loss of the current period.

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

2) Basis of recognition and method of measurement of transfer of financial assets

A financial asset is derecognised if any one of the following conditions is satisfied: 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 financial asset; ③ the financial asset has been transferred and the Group has neither transferred nor retained substantially all the risks and rewards incidental to the ownership of the financial asset, and has not retained its control over the financial asset.

Where the transfer of a financial asset in whole satisfies the criteria of derecognition, the difference between the carrying amount of the financial 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 financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding) is included in profit or loss for the current period.

Where the transfer of financial asset in part satisfies the criteria of derecognition, the carrying amount of the entire financial asset transferred is allocated between the part to be derecognized and the part not to be derecognized 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 financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding) and the carrying amount of the entire financial asset abovementioned for allocation is included in profit or loss for the current period.

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial instruments (continued)

(2) Financial liabilities

1) Classification, recognition and measurement of financial liabilities

At initial recognition, financial liabilities are classified either as financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss include trading financial liabilities and financial liabilities held-for-trading and those designated as fair value through profit or loss on initial recognition. These financial 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 financial liabilities are recorded in profit or loss for the period in which they are incurred.

Other financial 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 amortised cost: ① Financial liabilities at fair value through profit or loss, including held-for-trading financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated as at fair value through profit or loss. ② Financial liabilities that arise when a transfer of a financial 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 financial 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 profit or loss for the current period.

2) Criteria for derecognition of financial liabilities

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

(3) Method for determination of fair values of financial assets and financial liabilities

Fair values of financial assets and financial 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 beneficial to the market, and using valuation technology which is the most appropriate at that time and with sufficient 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 first 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 significant to the measurement of fair value as a whole.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial instruments (continued)

(3) Method for determination of fair values of financial assets and financial liabilities (continued)

The Group measures investments in equity instruments at fair value. However, in limited circumstances, if recent information on determining fair value is insufficient, 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) Offsetting of financial assets and financial liabilities

Financial assets and financial 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 financial asset and a financial 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 financial asset and settle the financial liability simultaneously.

(5) Classification and treatment of financial liabilities and equity instruments

The Group classifies financial liabilities and equity instruments on the following principles: (1) Where the Group is unable to unconditionally avoid delivering cash or another financial asset to fulfil a contractual obligation, the contractual obligation meets the definition of a financial liability. Although some financial instruments do not explicitly include the terms and conditions imposing the contractual obligation to deliver cash or another financial asset, they may indirectly give rise to the contractual obligation through other terms and conditions. (2) Where a financial 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 financial 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 financial liability; in the latter case, the instrument shall be the equity instrument of the issuer. Under certain circumstances whereby a financial instrument contract stipulates that the Group will or may use its own equity instrument to settle the financial 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 classified as a financial liability, regardless of whether the amount of the contractual right or obligation is fixed, or fluctuates 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 financial instrument price).

When classifying a financial instrument (or a component thereof) in consolidated financial statements, the Group shall consider all terms and conditions agreed between members of the Group and the holders of the financial 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 classified as a financial liability.

If the financial instrument or its component is attributable to the financial liability, the relevant interests, dividends, gains or losses, and gains or losses arising from redemption or refinancing, shall be recorded in the profit or loss of the current period.

If the financial 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.



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

11. Bills receivables

The business model of the Group's bills receivable is trade acceptance bills that collect contractual cash flows. 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. Accounts receivable

For the accounts receivable arising from the transactions regulated by the "Accounting Standards for Business Enterprises No. 14 — Revenue" and including no significant financing components, the Group always measures its loss allowance at an amount equal to the lifetime expected credit losses.

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

Information considered by the Group includes:

- the issuer or debtor has significant financial difficulty;
- the debtor has a breach of the contract, such as default or delay in payment of interest or principal;
- after consideration for relevant economic or contractual conditions based on the debtor's financial difficulty, the creditor grants the debtor a concession which would not be granted for any other situation;
- the debtor will probably enter bankruptcy or financial restructuring;
- the issuer's or debtor's financial difficulty conduces to the disappearance of the active market of the financial asset;
- a financial asset is purchased or originated at a large discount and the discount reflects the occurrence of credit loss.

For bills receivable and accounts receivable, the Group adopts expected credit loss approach to provide for allowances for bad debts. For bills receivable and accounts receivable which have significant different credit risk, 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.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

12. Accounts receivable (continued)

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:

Item	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years
Default loss rate	1.00%	50.00%	75.00%	85.00%	100.00%

13. Financing receivables

For those bills receivable and accounts receivable which the contractual cash flow characteristics are consistent with the basic lending arrangements and the Company's business model for managing such financial assets is to collect the contractual cash flows and for sale, the Company classifies 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 comprehensive income is transferred from other comprehensive income and credited to the profit or loss for the period.

14. Other receivables

Recognition and accounting methods for expected credit loss on other receivables

The Group provides for the loss of other receivables according to the following circumstances: ① for financial assets that the credit risk has not increased significantly since initial recognition, the Group measures the loss allowance at an amount of future 12-month expected credit losses; ② for financial assets that the credit risk has increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to the lifetime expected credit losses of the financial instrument; ③ for purchased or originated credit-impaired financial assets, the Group measures the loss allowance at an amount equal to the lifetime expected credit losses.

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

14. Other receivables (continued)

Assessment made on a combined basis: For other receivables, the Group is unable to obtain sufficient evidence for any significant increase in credit risk at reasonable cost for one instrument, but finds 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 significant increase in credit risk on a combined basis. The Group categorises other receivables into groups by nature and assesses whether there is any significant 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.

15. Inventories

Inventories of the Group mainly include raw materials, entrusted processed materials, work-in-progress and finished products.

The inventory taking system shall be on a perpetual basis. Inventories are initially measured at cost; when inventories are delivered, weight average method is adopted to determine the actual cost of inventories delivered. Low-value consumable and packaging materials are amortized by one-time written-off.

Net realizable value of goods-in-stock, work-in-progress or held-for-sale raw materials are determined by their estimated sales less the related selling expenses and taxes. Net realizable value of held-for-production raw materials are determined by their estimated sales price of finished products less the production cost, related selling expenses and taxes.

16. Contract assets

(1) Method and criteria for recognition of contract assets

Contract asset is the Group's right to consideration in exchange for goods that it has transferred to a customer, and the right is conditioned on factors other than the passage of time. If the Group sells two clearly distinguishable goods to the customer, and it has the right to receive payment because one of the goods has been delivered, but the receipt of such payment is conditioned on the delivery of another goods, the Group shall recognize such right to receive payment as contract asset.



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III. Significant Accounting Policies and Accounting Estimates (continued)

16. Contract assets (continued)

(2) Recognition and accounting treatment for expected credit losses on contract assets

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. 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 "asset 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 "asset impairment loss" for the relevant period.

17. Contract costs

(1) Method for determining the amount of assets related to contract costs

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

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 specifically 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 resources of the Group that will be used in satisfying performance obligations in the future; and the costs are expected to be recovered.

The cost of obtaining a contract is the incremental cost that the Group incurs to obtain a contract. If the cost is expected to be recovered, it is treated as the cost of obtaining a contract and recognized as an asset; if the amortization period of such asset is less than one year, it is recorded in profit or loss for the current period when incurred. Incremental costs are the costs that they would not have incurred if the Group had not obtained the contract (for example, sales commission). For other expenses incurred by the Group for obtaining a contract in addition to the incremental costs expected to be recovered (such as travel expenses incurred regardless of whether the contract is obtained or not), they are recorded in profit or loss for the current period when incurred. However, those expressly bore by the customer are excluded.

(2) Amortisation of assets related to contract costs

The Group amortises the asset relating to contract costs on a basis that is consistent with the revenue recognition relating to the asset and recognises it in profit or loss.



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III. Significant Accounting Policies and Accounting Estimates (continued)

17. Contract costs (continued)

(3) Impairment of assets related to contract costs

When determining the impairment loss of an asset related to the contract cost, the Group first 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 profit 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. Assets held for sale

- (1) The Group classifies 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 profit 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 specifically 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 classified as held for sale on the date of acquisition. At initial measurement, the amounts initially measured assuming it is not classified 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 profit 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 classified as held for sale in the separate financial statements of the parent company, and all assets and liabilities of the subsidiary are classified as held for sale in the consolidated financial statements.



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III. Significant Accounting Policies and Accounting Estimates (continued)

18. Assets held for sale (continued)

- (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 profit and loss of the period. Asset impairment loss recognised before classification as held for sale is not reversible.
- (5) Asset impairment loss recognised for disposal groups held for sale is first 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 classification as held for sale, with the reversed amount recognised in profit and loss of the period. The book value of the offset goodwill and impairment loss of non-current assets recognised before classification 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 satisfies the criteria of classification as held for sale and ceases to be classified as held for sale, or a non-current asset is removed from the disposal group held for sale, it is measured based on the lower of the following: 1) the book value before classification as held for sale adjusted by recognition of depreciation, amortisation or impairment assuming there was no classification 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 profit or loss of the period.

19. Long-term equity investments

Long-term equity investments include the Group's investments in subsidiaries, investments in associates and joint 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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III. Significant Accounting Policies and Accounting Estimates (continued)

19. Long-term equity investments (continued)

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 significant influence on the investee. If the voting right in the investee is less than 20%, the influence 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 financial and operating policies of the investee, having significant 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 financial 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 finally, 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 financial 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 insufficient, 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 finally, 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 profit 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.



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III. Significant Accounting Policies and Accounting Estimates (continued)

19. Long-term equity investments (continued)

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 profit 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 profit or loss in the invested company which it entitles, fair value of each identifiable 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 profit 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 equity investments accounted for under equity method, the movements of shareholder's equity, other than the net profit 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 common control or significant influence 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 in accordance with the relevant provisions of the standard on recognition and measurement of financial instruments, and the difference between fair value and the carry value on the date of loss of common control or significant influence will be included in the profit or loss for the current period. Other comprehensive income recognized as a result of the equity method of accounting for the original equity investment is treated on the same basis as the direct disposal of the related assets or liabilities by the investee upon the termination of the equity method of accounting and is carried forward proportionately. Owner's equity recognized as a result of changes in the investee's ownership interest other than net profit or loss, other comprehensive income and profit distribution should be transferred proportionately to current investment income.

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 the relevant provisions of the standard on recognition and measurement of financial instrument, 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 profit or loss for such period.

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III. Significant Accounting Policies and Accounting Estimates (continued)

19. Long-term equity investments (continued)

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 transfer to the profit or loss for the current period upon loss of control.

20. Fixed assets

(1) Criteria for recognition

Fixed assets are tangible assets with significant 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 benefits inflow to the Group and their costs can be measured reliably. The Group's fixed assets include buildings, machinery, electronic equipment, vehicles and other equipment, etc..

(2) Depreciation method

Category	Depreciation method	Depreciation period (year)	Residual value rate (%)	Annual depreciation rate (%)
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 fixed assets at the end of each year, and changes, if any, are treated as changes in accounting estimates.

21. Construction-in-progress

Construction in progress is carried forward to fixed 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 final account audit of the completed project, adjustment will be made for any difference from the original value of the fixed assets.



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III. Significant Accounting Policies and Accounting Estimates (continued)

22. Borrowing costs

In terms of the borrowing costs involving fixed 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 satisfied; 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 qualified 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 profits or losses in the current period. If the qualified 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 fixed assets is resumed.

The amount of interest of specific borrowings occurred for the period shall be capitalised after deducting any interest earned from depositing the unused specific 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 specific borrowings) times capitalisation rate (of used general borrowings). The rate of capitalisation is determined by the weighted average interest rate of general borrowing.

23. Right-of-use assets

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

(1) Initial measurement

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) Subsequent measurement

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) Depreciation of right-of-use assets

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 profit 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.

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III. Significant Accounting Policies and Accounting Estimates (continued)

23. Right-of-use assets (continued)

(3) Depreciation of right-of-use assets (continued)

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.

24. Intangible Assets

(1) Measurement method, useful life and impairment test

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 specified 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 confirmed in the financial statement, shall be confirmed as intangible asset at its fair value upon the initial recognition on the acquiree's assets.

For intangible assets with definite 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 beneficial year by contract, and legal available year. The amortization amount is accounted into profit 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 indefinite useful life. The Group will review the useful lives on those intangible assets with indefinite useful lives at each of the accounting period.

(2) Accounting policy regarding the expenditure on the internal research and development

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 final achievement, expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.



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III. Significant Accounting Policies and Accounting Estimates (continued)

24. Intangible Assets (continued)

(2) Accounting policy regarding the expenditure on the internal research and development (continued)

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 specifically 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 finalised.

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

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 benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- 4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- 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 profit 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.

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III. Significant Accounting Policies and Accounting Estimates (continued)

25. Impairment of long-term assets

The Company assesses items such as long-term equity investments, investment properties measured at cost, fixed assets, construction-in-progress, right-of-use assets, intangible assets with definite 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 flows 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 flows expected to be derived from the asset over the course of continued use and final 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 flows independently.

When performing impairment test on goodwill that is separately presented in the financial statements, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit 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 first 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-term deferred expenses

The Group's long-term deferred expenses will be amortized evenly during its beneficial period, If the long-term prepayments are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to profit or loss for the current period.

27. Contract liabilities

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.



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III. Significant Accounting Policies and Accounting Estimates (continued)

28. Employee compensations

(1) Accounting for short-term employee compensations

The Group's employee compensations include short-term compensation, post-employment benefits, termination benefits and other long-term benefits.

Short-term employee benefits 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 profit 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 beneficiaries of the services.

(2) Accounting for post-employment benefits

Post-employment benefits mainly include basic pension insurance, unemployment insurance and others. Based on the Company's risks and obligations, they are classified as defined contribution plans and defined benefit plans. As for the defined 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 beneficiaries. The Group has currently no defined benefit plan.

(3) Accounting for termination benefits

The Group has currently no termination benefits.

(4) Accounting for other long-term compensations

The Group has currently no other long-term compensations.

29. Lease liabilities

(1) Initial measurement

The Group initially measures a lease liability at the present value of outstanding lease payments at the commencement date of the lease term.

1) Lease payments

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 fixed payments and the substantial fixed 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 reflects 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.

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III. Significant Accounting Policies and Accounting Estimates (continued)

29. Lease liabilities (continued)

(1) Initial measurement (continued)

2) Discount rate

In calculating the present value of a lease payment, the Group uses the average borrowing rate of the main lease as the discount rate.

(2) Subsequent measurement

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.

The interest expenses of a lease liability in each period during the lease term based on fixed periodic interest rate are charged to the profit or 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) Remeasurement

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 right-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 profit or loss for the current period. ① There is a change in the substantial fixed 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. Provisions

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 fixed assets, satisfied 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 outflows. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.



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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

30. Provisions (continued)

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 reflect the current best estimate.

31. Production Safety 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).

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 profit 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 fixed 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 fixed assets. Meanwhile, "special reserve" will be offset by the cost forming fixed asset. If the balance of "special reserve" is inadequate for offsetting purpose, the production safety fee will be recognised in profit and loss for the current period.

1 January 2020 to 31 December 2020

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III. Significant Accounting Policies and Accounting Estimates (continued)

32. Revenue

Accounting policy adopted for the recognition and measurement of revenue

The Group's operation revenue is mainly from sale of goods and interest income.

(1) Principles of revenue recognition

Revenue is recognised when the Group satisfies 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.

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 significant 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 reflects 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 significant financing 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 satisfies a performance obligation over time if one of the following criteria is met; or otherwise, a performance obligation is satisfied at a point in time:

- 1) the customer simultaneously receives and consumes the benefits 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 satisfied 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.



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III. Significant Accounting Policies and Accounting Estimates (continued)

32. Revenue (continued)

(1) Principles of revenue recognition (continued)

For performance obligation satisfied 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 significant risks and rewards of ownership of the goods to the customer.
- (5) the customer has accepted the goods or services.

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) Specific accounting policies related to the main activities of the Company's revenue are described below:

① *Contracts for sale of goods*

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 *Contracts for provision of services*

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.

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(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

33. Government grants

The Group's government grants include financial 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 specified in the government documents, the Group shall determine based on the above classification principles, otherwise, it is classified as a government grant related to income in its entirety.

If a government grant is a monetary asset, it is measured at the amount actually received. For the grants being allocated in accordance with fixed quotas, or if there is sufficient evidence at end of the year to show that the entity complies with the conditions of financial 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 profit 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 profit 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 classified 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.



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(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

33. Government grants (continued)

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 profit or loss for the period.
- (3) In other cases, it is directly recognised in profit or loss for the period.

34. Deferred income tax assets/deferred income tax liabilities

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 profit 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 profit nor taxable profit (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. Leases

(1) Identification of leases

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 identified assets for a period of time in exchange of consideration. To determine whether a contract conveys the right to control the use of an identified asset, the Group assesses whether the lessee has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of uses, and also whether the lessee has the right to direct the use of the identified 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.



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(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

35. Leases (continued)

(2) The Group as a lessee

1) Lease recognition

The Group recognizes right-of-use assets and lease liabilities for leases at the beginning of the lease term. For the recognition and measurement of right-of-use assets and lease liabilities, see “23. Right-of-use assets” and “29. Lease liabilities”.

2) Modifications of leases

Modifications 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 modifications of leases is a date fixed for the modification of the lease as agreed by both parties.

If modification of lease happens and meets the following conditions, the Group accounts for the modification of lease as a separate lease: ① the modification of lease expands the scope of lease by adding right of use of one or more leased assets; ② the increased consideration and the standalone price of the expanded part of lease are equivalent after adjustment is made based on the contract.

If the modification of lease is not accounted for as a separate lease, on the effective date of the modification of lease, the Group allocates the consideration of the modified contract in accordance with the accounting standard in respect of leases and re-determines the lease term after modification; 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 modification, 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 modification of the lease as the discount rate. The Group accounts for the consequences of the above adjustment under the following circumstances: ① If the modification 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 reflect the gain or loss on partly or wholly termination of the lease in the profit or loss of the current year. ② For other modifications of lease that result in remeasurement of lease liability, the lessee made corresponding adjustment to the carrying amount of the right-of-use asset.

3) Short-term leases and leases of low-value asset

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 profit or loss for the current period in each period of the lease term on a straight-line basis.



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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

35. Leases (continued)

(3) The Group as a lessor

On the basis of determining the contract is or contains a lease as mentioned in "IV. 34.(1)", the Group, as a lessor, classifies the lease as finance 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 classifies the lease as finance lease. Other than that, all leases are classified as operating leases.

A lease is usually classified as a finance lease by the Group when one or more of the following conditions are satisfied: 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 sufficiently 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 modifications 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 finance 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) Accounting for finance leases

Initial measurement

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 finance lease receivable.

The net lease investment is the sum of the unguaranteed 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 fixed 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 reflects 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 financial capability to fulfil the obligation under the guarantee.

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(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

35. Leases (continued)

(3) The Group as a lessor (continued)

1) Accounting for finance leases (continued)

Subsequent measurement

The Group calculates and recognises interest income in each period during the lease term based on fixed 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 fixed when the modification of the finance lease is not treated as a separate lease and the leased is classified as finance lease in accordance with the relevant requirement with the criteria are satisfied had the modification take effect on the commencement date of the lease.

Accounting for lease modification

If the finance lease is modified and meets the following conditions, the Group accounts for the modification as a separate lease: ① The modification 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 modification of finance lease is not accounted for as a separate lease, and it satisfies 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 modification as a new lease since the effective date of the lease modification, with the net lease investment prior to the effective date of the lease modification as the carrying amount of the leased asset.

2) Accounting for operating leases

Treatment of rents

In each period during the lease term, the Group recognises lease receipts from operating lease as rental income on a straight line basis.

Incentive measures provided

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.

Initial direct expenses

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 profit or loss for the current period over the lease term in accordance with the same basis of recognition as rental income.

Depreciation

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.



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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

35. Leases (continued)

(3) The Group as a lessor (continued)

2) Accounting for operating leases (continued)

Variable lease payments

The variable lease payments received by the Group that have not included in lease receipts relating to the operating leases are credited to the profit or loss of the current period when they occur.

Modifications of operating leases

A modification 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 modification is treated as a receipt for new lease.

36. Other Significant Accounting Policies and Accounting Estimates

Accounting for income tax

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 dealt 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 profit 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 transactions and matters of the current period calculated according to the taxation regulations. The deferred income tax is the difference between the balances of the deferred income tax assets and deferred tax liabilities that should be recognised using the balance sheet liabilities approach at the end of period and their balances originally recognised.

Segment information

The Group's operating segments are identified based on internal organisation structure, management requirements and internal reporting system. The reportable segments are determined and disclosed based on the operating segments.

Operating segment is a component of the Group that satisfies the following criteria simultaneously: the component can generate revenue and expenses in business activities; the management of the Group can assess the operating performance of the component in order to allocate resources and assess performance; and the Group can acquire accounting information such as the financial position, operating performance and cash flow of the component. If two or more operating segments carry similar economic characteristics, and satisfy certain criteria, they are combined as one operating segment.

Discontinued operations

Discontinued operations refer to components of the Group which satisfy any of the following conditions and can be individually distinguished, and such components have been disposed of or classified as available-for-sale: (1) the components represent an independent major business or a separate major region of operation; (2) the components are part of an intended disposal plan related to an independent major business or a separate major region of operation; (3) the components are subsidiaries acquired specifically for resale.

Notes to the Financial Statements



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III. Significant Accounting Policies and Accounting Estimates (continued)

37. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

Applicable Not applicable

(2) Changes in significant accounting estimates

Applicable Not applicable

(3) Adjustments to the relevant items in the financial statements at the beginning of the year upon implementation of the New Revenue Standard and the New Lease Standard for the first time since 2020

Applicable Not applicable

(4) Retrospective adjustments to the comparative figures for prior period upon implementation of the New Revenue Standard and the New Lease Standard for the first time since 2020

Applicable Not applicable

IV. Taxation

1. Main tax types and tax rates

Type	Calculation basis	Rate
Value-added tax	The difference after the input tax of the purchased goods deducted from the output tax	13%, 9%, 5%
Urban maintenance and construction tax	Commodity turnover tax amount actually paid	7%
Enterprise income tax	Taxable profits	15%, 16.5%, 25%
Education surcharge	Commodity turnover tax amount actually paid	3%
Local education surcharge	Commodity turnover tax amount actually paid	2%



Notes to the Financial Statements

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VI. Taxation (continued)

1. Main tax types and tax rates (continued)

Disclosures regarding taxpaying entities with different enterprise income tax rates

Name of tax-paying entity	Income tax rate
The Company	15%
Shouguang Molong Logistic Co., Ltd.	25%
MPM International Limited	16.5%
Shouguang Baolong Petroleum Equipment Co., Ltd.	25%
Shouguang Maolong New Materials Technology Development Co., Ltd.	25%
Shouguang Molong Electro-mechanical Equipment Co., Ltd.	25%
Weihai Baolong Special Petroleum Materials Co., Ltd.	25%
Shouguang Baolong Management and Consultancy Co., Ltd.	25%
Shandong Molong Import & Export Co., Ltd.	25%
Shandong Molong Energy Technology Co., Ltd.	25%

2. Tax incentives

According to the list of high-tech enterprises contained in the "Letter Regarding 2020 2nd Batch Filing of High-tech Enterprises of Shandong Province"(Guo Ke Huo Zi [2021] No. 25) issued by the Leading Group Office of National High-tech Enterprises Recognition and Management, the Company was confirmed to have been re-certified as a high-tech enterprise and completed the registration. The above document shows that the Company's high-tech enterprise certificate number is GR202037004362 and the date of issuance is 8 December 2020, valid for three years.

According to the regulations of high-tech enterprise recognition and relevant national tax policies, the Company can continue to enjoy preferential national tax policies for three consecutive years (from 2020 to 2022) from the re-recognition of high-tech enterprises, i.e. paying enterprise income tax at a rate of 15%.

Notes to the Financial Statements



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V. Notes to the Consolidated Financial Statements

1. Monetary funds

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Cash on hand	53,744.41	183,974.68
Cash at banks	509,754,630.52	298,376,840.40
Other monetary funds	250,171,428.10	241,381,313.10
Total	759,979,803.03	539,942,128.18
Including: total deposits overseas	2,326,746.13	2,504,304.42

Other descriptions:

- (1) The Group's deposits overseas represented the monetary funds of MPM, a Hong Kong-based subsidiary.
- (2) The Company's other monetary funds as at the end of the period included bank acceptance security deposits of RMB242,336,453.10 (as at the beginning of the year: RMB239,079,167.10), security deposits for loans of RMB7,240,000.00 (as at the beginning of the year: RMB nil), USD fixed-rate margins of RMB nil (as at the beginning of the year: RMB 2,302,146.00) and deposits in other financial institutions of RMB594,975.00 (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 RMB59,664,500.00 (as at the beginning of the year: RMB43,685,292.00).
- (4) As at the balance sheet date, there were funds of RMB326,106.55 subject to judicial freezing for litigations.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

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V. Notes to the Consolidated Financial Statements (continued)

2. Bills receivable

(1) Presentation of bills receivable by type

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Trade acceptance bills	166,611,283.34	260,237,655.67
Less: Provision for impairment of bills receivable	(1,666,112.83)	(2,602,376.56)
Total	164,945,170.51	257,635,279.11

Unit: RMB

Item	Balance at the end of the period				Balance at the beginning of the period					
	Book balance		Provision for bad debts		Book value		Provision for bad debts			
	Amount	Percentage	Amount	Provision rate	Book balance	Amount	Percentage	Amount	Provision rate	Book value
Including: Bills receivable provided for bad debts on a collective basis	166,611,283.34	100.00%	1,666,112.83	1.00%	164,945,170.51	260,237,655.67	100.00%	2,602,376.56	1.00%	257,635,279.11
Including: Bills receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	166,611,283.34	100.00%	1,666,112.83	1.00%	164,945,170.51	260,237,655.67	100.00%	2,602,376.56	1.00%	257,635,279.11
Total	166,611,283.34	100.00%	1,666,112.83	1.00%	164,945,170.51	260,237,655.67	100.00%	2,602,376.56	1.00%	257,635,279.11

Bills receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

Name	Balance at the end of the period		
	Book balance	Bad debt provision	Provision rate
Within 1 year	166,611,283.34	1,666,112.83	1.00%
Total	166,611,283.34	1,666,112.83	—

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

2. Bills receivable (continued)

(1) Presentation of bills receivable by type (continued)

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.

If the provision for bad debts on bills receivable is based on the general model of expected credit losses, please disclose information about the provision for bad debts by referring to the disclosure of other receivables:

Applicable Not applicable

(2) Provision, recovery or reversal of provision for bad debts for the period

Provisions for bad debts for the period:

Unit: RMB

Type	Balance at the beginning of period	Movement during the period				Balance at the end of the period
		Provision	Recovery or reversal	Write-off	Other	
Provisions for impairment of bills receivable	2,602,376.56	(936,263.73)	—	—	—	1,666,112.83
Total	2,602,376.56	(936,263.73)	—	—	—	1,666,112.83

Including any significant recovery or reversal of provision for bad debts for the period:

Applicable Not applicable

(3) Pledged bills receivable of the Company at end of period

Unit: RMB

Item	Pledged amount at the end of the period
Trade acceptance bills	117,520,033.97
Total	117,520,033.97



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

2. Bills receivable (continued)

(4) Bill receivables that have been endorsed or discounted at the end of the period and have not yet expired at the balance sheet date

Unit: RMB

Item	Amount derecognised as at the end of the period	Amount not derecognised as at the end of the period
Trade acceptance bills	—	42,860,229.13
Total	—	42,860,229.13

(5) Bills transferred to accounts receivable due to non-performance of drawers at the end of the period

The Group had no bills transferred to accounts receivable due to non-performance of drawers at the end of the year.

(6) Write-off of bills receivable for the period

The Group had no bills receivable that have been written off for the year.

3. Accounts receivable

(1) Disclosure of accounts receivable by type

Unit: RMB

Item	Balance at the end of the period					Balance at the beginning of the period				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	Percentage	Amount	Provision rate		Amount	Percentage	Amount	Provision rate	
Accounts receivable provided for bad debts on an individual basis	17,365,734.73	4.22%	3,473,146.95	20.00%	13,892,587.78	19,965,734.73	3.14%	3,993,146.95	20.00%	15,972,587.78
Including:										
Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk	17,365,734.73	4.22%	3,473,146.95	20.00%	13,892,587.78	19,965,734.73	3.14%	3,993,146.95	20.00%	15,972,587.78
Accounts receivable provided for bad debts on a collective basis	393,973,746.12	95.78%	119,945,738.62	30.45%	274,028,007.50	615,592,605.55	96.86%	124,006,168.38	20.14%	491,586,437.17
Including:										
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	393,973,746.12	95.78%	119,945,738.62	30.45%	274,028,007.50	615,592,605.55	96.86%	124,006,168.38	20.14%	491,586,437.17
Total	411,339,480.85	—	123,418,885.57	—	287,920,595.28	635,558,340.28	—	127,999,315.33	—	507,559,024.95

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

3. Accounts receivable (continued)

(1) Disclosure of accounts receivable by type (continued)

Provision for bad debts on an individual basis: accounts receivable provided for bad debts on an individual basis due to significantly different credit risk

Unit: RMB

Name	Balance at the end of the period			
	Book balance	Bad debt provision	Provision rate	Reason for provision
Hebei Zhongtai Steel Pipe Manufacture Company Limited (河北中泰鋼管製造有限公司)	17,365,734.73	3,473,146.95	20.00%	Provision was made based on the expected credit loss amount of the customer
Total	17,365,734.73	3,473,146.95	—	—

Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

Name	Balance at the end of the period		
	Book balance	Bad debt provision	Provision rate
Within 1 year	270,075,676.86	2,700,756.77	1.00%
1–2 years	8,761,658.21	4,380,829.11	50.00%
2–3 years	168,705.00	126,528.75	75.00%
3–4 years	2,109,650.15	1,793,202.63	85.00%
4–5 years	12,757,563.59	10,843,929.05	85.00%
Over 5 years	100,100,492.31	100,100,492.31	100.00%
Total	393,973,746.12	119,945,738.62	—

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



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

3. Accounts receivable (continued)

(1) Disclosure of accounts receivable by type (continued)

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	270,075,676.86
1 to 2 years	8,761,658.21
2 to 3 years	168,705.00
Over 3 years	132,333,440.78
3 to 4 years	2,109,650.15
4 to 5 years	17,776,652.99
Over 5 years	112,447,137.64
Total	411,339,480.85

(2) Provision, recovery or reversal of provision for bad debts for the period

Provisions for bad debts for the period:

Unit: RMB

Type	Balance at the beginning of the period	Changes during the period				Balance at the end of the period
		Provision	Recovery or reversal	Write-off	Others	
Provisions for bad debts						
of accounts receivable	127,999,315.33	(4,580,429.76)	—	—	—	123,418,885.57
Total	127,999,315.33	(4,580,429.76)	—	—	—	123,418,885.57

(3) Accounts receivables written off during the period

The Company did not write off any accounts receivable during the year.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

3. Accounts receivable (continued)

(4) Balance of top five accounts receivable as at the end of the period by debtor

Unit: RMB

Entity name	Balance of accounts receivable at the end of the period	Percentage to the total balance of accounts receivable at the end of the period	Balance of bad debt provision at the end of the period
Entity I	98,065,319.25	23.84%	980,653.19
Entity II	81,882,027.75	19.91%	2,952,026.43
Entity III	71,396,459.74	17.36%	713,964.60
Entity IV	45,678,343.35	11.10%	45,678,343.35
Entity V	19,151,133.71	4.65%	19,151,133.71
Total	316,173,283.80	76.86%	—

(5) Account receivables that were derecognized on transfer of financial assets

As of 31 December 2020, the Group had no account receivables that were derecognised due to the transfer of financial assets.

(6) Amount of assets or liabilities for which accounts receivable have been transferred but involvement continues

As of 31 December 2020, the Group had no assets or liabilities for which accounts receivable have been transferred but involvement continues.

Other description:

As of 31 December 2020, accounts receivable of the Group amounting to RMB29,368,652.94 were restricted for use as they have been applied to the factoring financing.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

4. Financing receivables

Item	Balance at the end of the period	Unit: RMB Balance at the beginning of the period
Bank acceptance bills	33,575,777.00	96,155,523.75
Total	33,575,777.00	96,155,523.75

Increase or decrease movements and fair value changes of financing 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.

No provision for asset impairment was made by the Group as the acceptors of the bank acceptance bills it holds are all financial institutions with good credit standing.

If provision for impairment of financing 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

Other description:

(1) Pledged financing receivables as at the end of the year

Item	Pledged amount at the end of the year
Bank acceptance bills	8,000,000.00
Total	8,000,000.00

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

4. Financing receivables (continued)

(2) Financing receivables that have been endorsed or discounted at the end of the year and have not yet expired at the balance sheet date

	Unit: RMB	
Item	Amount derecognised as at the end of the year	Amount not derecognised as at the end of the year
Bank acceptance bills	655,584,943.43	10,000,000.00
Total	655,584,943.43	10,000,000.00

5. Loans and advances

	Unit: RMB	
Item	Balance at the end of the year	Balance at the beginning of the year
Loans and advances, net	951,005.30	17,046,915.97
Total	951,005.30	17,046,915.97

(1) Breakdown of loans and advances

	Unit: RMB	
Item	Balance at the end of the year	Balance at the beginning of the year
Loans and advances	38,938,901.90	47,925,154.08
Less: Loss allowances for loans	37,987,896.60	30,878,238.11
Loans and advances, net	951,005.30	17,046,915.97



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

5. Loans and advances (continued)

(2) Loans and advances by guarantee

Unit: RMB

Loan type	Balance at the end of the year	Balance at the beginning of the year
Pledged loans	—	5,340,000.00
Secured loans	—	3,844,593.19
Guaranteed loans	951,005.30	7,862,322.78
Total	951,005.30	17,046,915.97

(3) Loans and advances by borrower type

Unit: RMB

Type	Balance at the end of the year				Net amount of loans
	Book balance		Loss allowance for loans		
	Amount	Percentage (%)	Amount	Provision rate (%)	
Corporate loans	36,913,901.90	94.80	35,962,896.60	97.42	951,005.30
Personal loans	2,025,000.00	5.20	2,025,000.00	100.00	—
Total	38,938,901.90	100.00	37,987,896.60	—	951,005.30

Type	Balance at the beginning of the year				Net amount of loans
	Book balance		Loss allowance for loans		
	Amount	Percentage (%)	Amount	Provision rate (%)	
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

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

5. Loans and advances (continued)

(4) Loss allowances for loans and advances

As of 31 December 2020, the Group had overdue loans of RMB38,938,901.90. The profile of the Group's loans based on their securities and guarantees and status using the expected credit loss model was as follows:

Unit: RMB

Loss allowance for loans	Stage 1	Stage 2	Stage 3	Total
	Next 12-month expected credit loss	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Balance at 1 January 2020	—	—	30,878,238.11	30,878,238.11
The book balance of loans and advances at 1 January 2020 during the year	—	—	—	—
—Transfer to Stage 2	—	—	—	—
—Transfer to Stage 3	—	—	—	—
—Transfer back to Stage 2	—	—	—	—
—Transfer back to Stage 1	—	—	—	—
Provision for the year	—	—	7,689,658.49	7,689,658.49
Reversals for the year	—	—	—	—
Offset for the year	—	—	580,000.00	580,000.00
Write-off for the year	—	—	—	—
Other movement	—	—	—	—
Balance at 31 December 2020	—	—	37,987,896.60	37,987,896.60



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

5. Loans and advances (continued)

(5) Loss allowance for loans

Unit: RMB

Type	Balance at the beginning of the year	Movement during the year			Balance at the end of the year
		Provision	Recovery or reversal	Offset or write-off	
Loss allowance for loans	30,878,238.11	7,689,658.49	—	580,000.00	37,987,896.60
Total	30,878,238.11	7,689,658.49	—	580,000.00	37,987,896.60

(6) Loans and advances written off during the year

Unit: RMB

Item	Write-off amount
Loans and advances	580,000.00

6. Prepayments

(1) Presentation of prepayments by age

Unit: RMB

Age	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Percentage	Amount	Percentage
Within 1 year	24,122,905.08	97.44%	36,184,175.19	87.86%
1 to 2 years	—	0.00%	520,257.50	1.26%
2 to 3 years	10,800.00	0.04%	15,091.24	0.04%
Over 3 years	622,237.76	2.52%	4,464,940.52	10.84%
Total	24,755,942.84	—	41,184,464.45	—

Notes to reasons of significant prepayments over 1 year and not settled in time:

As at the end of the year, the Group had no significant prepayments aged over one year.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

6. Prepayments (continued)

(2) Details of the top five ending balances of prepayments classified according to the payees

Unit: RMB

Name of entity	Balance at the end of the year	Age	Percentage to total balance of payments at the end of the year
Entity I	12,315,146.47	Within 1 year	49.75%
Entity II	3,642,319.93	Within 1 year	14.71%
Entity III	3,519,014.72	Within 1 year	14.21%
Entity IV	1,448,400.00	Within 1 year	5.85%
Entity V	604,674.00	Within 1 year	2.44%
Total	21,529,555.12	—	86.96%

7. Other receivables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Interests receivable	—	2,308,030.91
Other receivables	156,486,818.72	26,981,195.10
Total	156,486,818.72	29,289,226.01

(1) Interest receivables

1) Category of interest receivables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Time deposits	—	2,308,030.91
Total	—	2,308,030.91



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

7. Other receivables (continued)

(1) Interest receivables (continued)

2) Significant overdue interest

The Group had no interest receivable that is past due.

3) Provision for bad debts

Applicable Not applicable

(2) Other receivables

1) Other receivables by payment nature

Unit: RMB

Payment nature	Book balance at the end of the period	Book balance at the beginning of the period
Staff turnover loans	1,227,252.00	1,293,754.00
Deposits/caution money	2,108,347.00	3,589,758.00
Amounts due from administrative entities	1,300,685.00	26,000,341.48
Other amounts due from individuals	—	—
Other amounts due from entities	154,115,315.32	1,677,120.82
Less: Provision for bad debts of other receivables	(2,264,780.60)	(5,579,779.20)
Total	156,486,818.72	26,981,195.10

2) Provision for bad debts

Unit: RMB

Provision for bad debts	Stage 1	Stage 2	Stage 3	Total
	Next 12-month expected credit loss	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Balance at 1 January 2020	241,368.00	5,338,411.20	—	5,579,779.20
Transfer of balance at 1 January 2020 during the period	—	—	—	—
Provision for the period	547,159.49	—	—	547,159.49
Reversal for the period	—	3,862,158.09	—	3,862,158.09
Balance at 31 December 2020	788,527.49	1,476,253.11	—	2,264,780.60

Movement of book balance of significant change in provision for the period

Applicable Not applicable

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

7. Other receivables (continued)

(2) Other receivables (continued)

2) Provision for bad debts (continued)

Disclosure by age

Unit: RMB

Age	Book balance
1 year (inclusive)	68,566,486.41
1 to 2 years	87,540,550.39
2 to 3 years	793,600.00
Over 3 years	1,850,962.52
3 to 4 years	—
4 to 5 years	—
Over 5 years	1,850,962.52
Total	158,751,599.32

3) Provision, recovery or reversal of provision for bad debts for the period

Provisions for bad debts for the period:

Unit: RMB

Type	Balance at the beginning of the period	Movement during the period				Balance at the end of the period
		Provision	Recovery or reversal	Write-off	Other	
Provisions for bad debts of other receivables	5,579,779.20	547,159.49	3,862,158.09	—	—	2,264,780.60
Total	5,579,779.20	547,159.49	3,862,158.09	—	—	2,264,780.60

4) Other receivables written off during the period

The Group has no actual write-offs of other receivables for the year.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

7. Other receivables (continued)

(2) Other receivables (continued)

5) Balance of top five other receivables as at the end of the period by debtor

Unit: RMB

Name of entity	Nature of payment	Balance at the end of the period	Age	Percentage to the total amount of closing balance of other receivables	Balance of bad debt provision at the end of the period
Shandong Shouguang Vegetable Wholesale Market Co., Ltd. (山東壽光蔬菜批發市場有限公司)	Amounts due from entities	152,808,000.00	Within 1 year	96.26%	768,480.00
Wendeng Gaocun Town People's Government	Amounts due from administrative entities	1,300,000.00	Over 5 years	0.82%	546,000.00
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	914,947.00	Within 1 year	0.58%	—
Weihai City Wendeng District Finance Bureau	Deposits	613,400.00	2-3 years	0.39%	36,804.00
Chaoyang Heavy Machinery Co., Ltd.	Amounts due from entities	550,000.00	1-2 years	0.35%	302,500.00
Total	—	156,186,347.00	—	98.40%	1,653,784.00

6) Accounts receivable related to government grants

Nil

7) Other receivables derecognised on transfer of financial assets

As of 31 December 2020, the Group had no other receivables derecognised on transfer of financial assets.

8) Amount of assets or liabilities arising from transfer of other receivables and continuous involvement

As of 31 December 2020, the Group had no assets or liabilities arising from transfer of other receivables and continuous involvement.

Other description:

As of 31 December 2020, the Group had no other receivables that have been used as a pledge.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

7. Other receivables (continued)

(2) Other receivables (continued)

9) Borrowings due from employees

Unit: RMB

Name of borrower	Diao Shi Jin	Li Song Ming	Zhang Shou Yuan	Liu Chun Jing	Other employees
	Business working capital	Business working capital	Business working capital	Business working capital	Business working capital
Purpose of borrowing					
Amount	—	—	—	—	—
— Current year (RMB)	300,000.00	100,000.00	—	100,000.00	727,252.00
— Prior year (RMB)	—	—	250,000.00	170,000.00	873,754.00
Amount of bad debt provision (RMB)	—	—	—	—	—

8. Inventories

Should the Company comply with the disclosure requirements for property industry

No

(1) Category of inventories

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment of inventories or provision for devaluation of costs of contract performance	Book value	Book balance	Provision for impairment of inventories or provision for devaluation of costs of contract performance	Book value
Raw materials	370,245,791.30	5,068,482.54	365,177,308.76	353,582,703.30	6,430,777.40	347,151,925.90
Work-in-progress	107,978,797.99	1,481,224.74	106,497,573.25	166,028,851.73	4,569,606.68	161,459,245.05
Goods in stock	321,415,737.28	5,966,469.73	315,449,267.55	426,713,762.34	10,725,275.46	415,988,486.88
Sub-contracting materials	253,795.42	330.20	253,465.22	10,309,440.99	1,778.24	10,307,662.75
Total	799,894,121.99	12,516,507.21	787,377,614.78	956,634,758.36	21,727,437.78	934,907,320.58



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

8. Inventories (continued)

(2) Provision for impairment of inventories or provision for devaluation of costs of contract performance

Unit: RMB

Item	Balance at the beginning the period	Increase in the current period		Decrease in the current period		Balance at the end of the period
		Provision	Others	Reversal or write-off	Others	
Raw materials	6,430,777.40	644,251.14	—	2,006,546.00	—	5,068,482.54
Work-in-progress	4,569,606.68	790,820.74	—	3,879,202.68	—	1,481,224.74
Goods in stock	10,725,275.46	1,412,801.33	—	6,171,607.06	—	5,966,469.73
Sub-contracting materials	1,778.24	330.20	—	1,778.24	—	330.20
Total	21,727,437.78	2,848,203.41	—	12,059,133.98	—	12,516,507.21

The reversal and write-off of impairment allowances for inventories of the Company for the period was RMB 1,800,432.58 and RMB10,258,701.40, respectively.

Allowances for impairment of inventories

Item	Specific basis to determine net realisable value	Reason for reversal or write-off in the current year
Raw materials	The selling price of the products formed by the production of the materials and semi-finished products minus the further processing costs and related sales expenses and related expenses of taxation	Material Requisition for production and price change
Work-in-progress		Material Requisition for production and price change
Sub-contracting materials		Material Requisition for production and price change
Finished products	The selling price minus the selling expenses and related expenses of taxation	External sales and price change

There were no inventories that were pledged or frozen in the inventories of the Group as at the end of the year.

(3) Explanation on period-end inventory balance containing borrowing expense capitalisation amount

Nil

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

8. Inventories (continued)

(4) Explanation on the amortised amount of cost of contract performance for the period

Nil

9. Other current assets

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible input tax	17,099,685.84	34,046,039.33
Prepaid income tax	255,055.85	1,160,302.64
Prepaid other taxes	2,074,331.20	—
Interest receivable on acceptance deposits	2,475,860.01	—
Total	21,904,932.90	35,206,341.97

10. Long-term equity investments

Unit: RMB

Investee	Balance at the beginning of the period (Book value)	Movement during the period								Balance at the end of the period (Book value)	Balance of provision for impairment at the end of the period
		Increase in investment	Decrease in investment	Gain or loss on investments recognised under the equity method	Adjustment to other comprehensive income	Other changes in equity	Cash dividend or profits declared	Provision for impairment	Others		
I. Joint Venture											
II. Associate											
Karamay Yalong Petroleum Machinery Co., Ltd	2,557,061.01	—	—	(242,363.72)	—	—	—	—	—	2,314,697.29	—
Sub-total	2,557,061.01	—	—	(242,363.72)	—	—	—	—	—	2,314,697.29	—
Total	2,557,061.01	—	—	(242,363.72)	—	—	—	—	—	2,314,697.29	—



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

11. Fixed Assets

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Fixed assets	2,493,577,016.35	2,726,157,716.13
Total	2,493,577,016.35	2,726,157,716.13

(1) Details of fixed assets

Unit: RMB

Item	Buildings	Machinery and equipment	Electronic and others	Vehicles	Total
I. Original book value:					
1. Balance at the beginning 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
2. Additions during the period	17,703,138.61	56,499,987.94	1,576,205.44	973,949.41	76,753,281.40
(1) Purchase	67,546.83	12,913,584.47	1,508,209.99	919,492.10	15,408,833.39
(2) Transferred from construction in progress	17,635,591.78	43,586,403.47	67,995.45	54,457.31	61,344,448.01
(3) Additions from business combinations	—	—	—	—	—
3. Reductions during the period	161,379,843.42	63,649,690.67	8,036,967.10	2,021,159.81	235,087,661.00
(1) Disposal or retirement	161,379,843.42	63,649,690.67	8,036,967.10	2,021,159.81	235,087,661.00
4. Balance at the end of the period	952,316,538.20	3,309,613,999.73	116,666,978.80	13,371,621.87	4,391,969,138.60
II. Accumulated depreciation					
1. Balance at the beginning of the period	320,569,282.91	1,337,814,147.66	90,999,782.65	6,817,643.07	1,756,200,856.29
2. Additions during the period	52,122,672.58	174,859,470.87	5,207,117.54	2,190,446.19	234,379,707.18
(1) Provision	52,122,672.58	174,859,470.87	5,207,117.54	2,190,446.19	234,379,707.18
3. Reductions during the period	93,074,396.46	57,108,947.03	6,945,264.57	1,768,413.94	158,897,022.00
(1) Disposal or retirement	93,074,396.46	57,108,947.03	6,945,264.57	1,768,413.94	158,897,022.00
4. Balance at the end of the period	279,617,559.03	1,455,564,671.50	89,261,635.62	7,239,675.32	1,831,683,541.47
III. Impairment provision					
1. Balance at the beginning of the period	4,986,478.28	62,958,467.50	—	—	67,944,945.78
2. Additions during the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions during the period	—	1,236,365.00	—	—	1,236,365.00
(1) Disposal or retirement	—	1,236,365.00	—	—	1,236,365.00
4. Balance at the end of the period	4,986,478.28	61,722,102.50	—	—	66,708,580.78
IV. Book value					
1. Book value at the end of the period	667,712,500.89	1,792,327,225.73	27,405,343.18	6,131,946.55	2,493,577,016.35
2. Book value at the beginning of the period	770,437,481.82	1,915,991,087.30	32,127,957.81	7,601,189.20	2,726,157,716.13

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

11. Fixed Assets (continued)

(2) Details of fixed assets without complete property certificate

Unit: RMB

Item	Book value	Reason for pending out certificate of ownership
Workshop plant, office building and staff canteen of Shouguang Maolong	238,568,216.22	Not yet applied

Other descriptions :

The Group had no temporarily idle fixed assets : had no fixed assets that were leased in under finance leases or leased out under operating leases.

12. Construction in Progress

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Construction in progress	7,620,542.62	55,034,853.27
Total	7,620,542.62	55,034,853.27



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

12. Construction in Progress (continued)

(1) Details of construction in progress

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for	Book value	Book balance	Provision for	Book value
		impairment			impairment	
Employee technical development training centre	3,036,531.70	—	3,036,531.70	20,796,671.64	—	20,796,671.64
Furnace rehabilitation and improvement and construction of new auxiliary and miscellaneous projects	—	—	—	16,845,718.09	—	16,845,718.09
VD vacuum degassing device	—	—	—	16,745,602.57	—	16,745,602.57
Other miscellaneous projects	4,584,010.92	—	4,584,010.92	646,860.97	—	646,860.97
Total	7,620,542.62	—	7,620,542.62	55,034,853.27	—	55,034,853.27

(2) Changes of major construction in progress during the period

Unit: RMB

Item	Budget amount	Balance at the beginning of the period	Increase during the period	Transfer to fixed assets during the period	Other reduction during the period	Balance at the end of the period	Ratio of accumulated contribution to the construction to budget	Construction progress	Accumulated interest capitalised	Including:	
										Amount of interest capitalised during the period	Capitalisation rate of interest for the period
Employee technical development training centre	26,000,000.00	20,796,671.64	340,620.33	18,100,760.27	—	3,036,531.70	89.62%	95%	—	—	— others
Total	26,000,000.00	20,796,671.64	340,620.33	18,100,760.27	—	3,036,531.70	—	—	—	—	—

(3) Details of provision for impairments of construction in progress during the period

There is no indication of impairment at the end of the year, therefore no provision for impairment is made for construction in progress.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

12. Construction in Progress (continued)

(4) Other descriptions

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. Right-of-use assets

Unit: RMB

Item	Buildings and related land use rights	Total
I. Original book value		
1. Balance at the beginning of the year	—	—
2. Additions during the year	4,591,910.73	4,591,910.73
(1) Leased in	4,591,910.73	4,591,910.73
(2) Additions from business combinations	—	—
3. Reductions during the year	—	—
(1) Disposal	—	—
4. Balance at the end of the year	4,591,910.73	4,591,910.73
II. Accumulated depreciation		
1. Balance at the beginning of the year	—	—
2. Additions during the year	—	—
(1) Provision	—	—
3. Reductions during the year	—	—
(1) Disposal	—	—
4. Balance at the end of the year	—	—
III. Provision for Impairment		
1. Balance at the beginning of the year	—	—
2. Additions during the year	—	—
(1) Provision	—	—
3. Reductions during the year	—	—
(1) Disposal	—	—
4. Balance at the end of the year	—	—
IV. Book value		
1. Book value at the end of the year	4,591,910.73	4,591,910.73
2. Book value at the beginning of the year	—	—



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

14. Intangible assets

(1) Details of Intangible assets

Unit: RMB

Item	Land use right	Patent right	Non-patent technology	Software	Total
I. Original book value					
1. Balance at the beginning of the period	495,255,263.56	2,886,248.19	398,495,237.46	770,036.72	897,406,785.93
2. Additions during the period	18,317.20	—	8,225,125.47	—	8,243,442.67
(1) Acquisition	18,317.20	—	—	—	18,317.20
(2) Internal research and development	—	—	8,225,125.47	—	8,225,125.47
(3) Additions from business combinations	—	—	—	—	—
3. Reductions during the period	49,089,821.28	—	—	—	49,089,821.28
(1) Disposal	49,089,821.28	—	—	—	49,089,821.28
4. Balance at the end of the period	446,183,759.48	2,886,248.19	406,720,362.93	770,036.72	856,560,407.32
II. Accumulated amortisation					
1. Balance at the beginning of the period	76,121,341.48	2,773,939.82	340,549,544.45	770,036.72	420,214,862.47
2. Additions during the period	11,393,369.08	36,467.40	7,754,585.52	—	19,184,422.00
(1) Provision	11,393,369.08	36,467.40	7,754,585.52	—	19,184,422.00
3. Reductions during the period	10,496,098.30	—	—	—	10,496,098.30
(1) Disposal	10,496,098.30	—	—	—	10,496,098.30
4. Balance at the end of the period	77,018,612.26	2,810,407.22	348,304,129.97	770,036.72	428,903,186.17
III Provision for impairment					
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 value					
1. Book value at the end of the period	369,165,147.22	75,840.97	24,447,857.51	—	393,688,845.70
2. Book value at the beginning of the period	419,133,922.08	112,308.37	23,977,317.56	—	443,223,548.01

The internally generated intangible assets accounted for 6.21% of the balance of intangible assets as at the end of the period.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

14. Intangible assets (continued)

(2) Details of land use rights without complete property certificate

Nil

15. Development expenditures

Unit: RMB

Item	Balance at the beginning of the period	Additions during the period		Reductions during the period		Balance at the end of the period
		Internal development expenditures	Others	Recognised as intangible assets	Transfer to profit or loss for the current period	
Project I	—	4,231,544.07	—	4,231,544.07	—	—
Project II	—	5,245,811.51	—	—	5,245,811.51	—
Project III	—	3,704,826.09	—	—	3,704,826.09	—
Project IV	—	4,469,343.54	—	—	4,469,343.54	—
Project V	—	7,075,245.66	—	—	7,075,245.66	—
Project VI	—	5,722,398.29	—	—	5,722,398.29	—
Project VII	—	3,993,581.40	—	3,993,581.40	—	—
Project VIII	—	7,336,575.20	—	—	7,336,575.20	—
Total	—	41,779,325.76	—	8,225,125.47	33,554,200.29	—

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.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

16. Deferred income tax assets/deferred income tax liabilities

(1) Deferred income tax assets not yet eliminated

Unit: RMB

Item	Balance at the end of the period		Balance at the beginning of the period	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Unrealised profits arisen from intragroup transactions	8,674,082.12	2,168,520.53	9,393,965.60	2,348,491.40
Bills receivables	1,666,112.83	249,916.92	2,602,376.56	390,356.49
Accounts receivable	123,240,340.22	18,486,051.03	127,816,000.16	19,172,400.02
Other receivables	805,648.76	120,847.31	2,869,997.38	430,499.61
Allowance for impairment of inventories	9,699,861.11	1,454,979.17	18,060,869.10	2,709,130.37
Difference in amortisation of intangible assets	70,518,640.46	10,577,796.07	95,472,670.50	14,320,900.58
Estimated liabilities	14,392,824.64	2,158,923.70	5,734,176.25	860,126.44
Total	228,997,510.14	35,217,034.73	261,950,055.55	40,231,904.91

(2) Deferred tax liabilities not yet eliminated

Unit: RMB

Item	Balance at the end of the period		Balance at the beginning of the period	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Long-term equity investments	15,237.52	3,809.38	15,237.52	3,809.38
Fixed assets	—	—	—	—
Intangible assets	22,227,357.96	5,556,839.49	23,001,960.00	5,750,490.00
Total	22,242,595.48	5,560,648.87	23,017,197.52	5,754,299.38

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

16. Deferred income tax assets/deferred income tax liabilities (continued)

(3) Deferred income tax assets or liabilities presented on a net basis after offsetting

Unit: RMB

Item	Offsetting between deferred income tax assets and liabilities at the end of the period	Balance of deferred income tax assets or liabilities after offsetting at the end of the period	Offsetting between deferred income tax assets and liabilities at the beginning of the period	Balance of deferred income tax assets or liabilities after offsetting at the beginning of the period
Deferred income tax assets	—	35,217,034.73	—	40,231,904.91
Deferred income tax liabilities	—	5,560,648.87	—	5,754,299.38

(4) Breakdown of unrecognized deferred income tax assets

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible temporary differences	109,150,800.67	97,006,220.12
Deductible losses	986,842,767.09	1,052,554,995.02
Total	1,095,993,567.76	1,149,561,215.14



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

16. Deferred income tax assets/deferred income tax liabilities (continued)

(5) Deductible losses of unrecognised deferred income tax assets will be expired by the year as specified below

Unit: RMB

Year	Amount at the end of the period	Amount at the beginning of the period	Remark
2020	—	135,433,959.60	—
2021	158,888,578.18	159,003,364.18	—
2022	175,248,363.36	176,061,927.43	—
2023	52,476,863.76	52,476,863.76	—
2024	219,282,588.57	223,281,561.26	—
2025	164,322,306.42	—	—
2026	144,086,568.32	230,288,589.07	—
2029	72,537,498.48	76,008,729.72	—
Total	986,842,767.09	1,052,554,995.02	—

17. Other non-current assets

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Prepaid land payments	—	—	—	3,900,000.00	—	3,900,000.00
Prepayments for equipment	350,000.00	—	350,000.00	5,721,036.29	—	5,721,036.29
Prepayment for construction work	378,107.60	—	378,107.60	—	—	—
Total	728,107.60	—	728,107.60	9,621,036.29	—	9,621,036.29

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

18. Short-term borrowings

(1) Category of short-term borrowings

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Pledged borrowings	19,560,839.26	11,229,883.37
Guaranteed borrowings	827,986,114.72	386,800,000.02
Credit borrowings	696,244,933.51	1,367,881,000.00
Bills discounted and borrowings for letters of credit	510,433,490.80	163,600,000.00
Total	2,054,225,378.29	1,929,510,883.39

Notes for classification of short-term borrowings:

Details of the interest rate: in 2020, the weighted average annual interest rate of short-term borrowings for the Group was 4.46% (2019: 4.789%).

(2) Details of outstanding overdue short-term borrowings

As at the end of the year, the Group had no outstanding overdue short-term borrowing.

19. Bills payable

Unit: RMB

Type	Balance at the end of the period	Balance at the beginning of the period
Trade acceptance bills	121,472,511.10	281,588,603.88
Total	121,472,511.10	281,588,603.88

At the end of the period, the outstanding overdue bills payable amounted to RMB0.00.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

20. Accounts payable

(1) Presentation of accounts payable

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Amounts due to suppliers	648,352,428.48	924,020,613.80
Total	648,352,428.48	924,020,613.80

(2) Significant accounts payable with aging over one year

Unit: RMB

Item	Balance at the end of the period	Reasons for outstanding or carrying forward
Entity 1	8,084,819.70	Settlement conditions not reached
Entity 2	5,741,778.07	Settlement conditions not reached
Entity 3	5,343,255.17	Settlement conditions not reached
Entity 4	5,333,245.98	Settlement conditions not reached
Entity 5	3,537,794.87	Settlement conditions not reached
Total	28,040,893.79	—

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

20. Accounts payable (continued)

(3) Presentation of accounts payable by age

The aging analysis of accounts payable (including amounts due from related parties) based on transaction dates is as follows:

Item	Amount at the end of the year	Unit: RMB
		Amount at the beginning of the year
Within 2 months	235,495,851.68	463,282,439.13
2-3 months	60,317,253.24	102,347,363.72
3-4 months	49,675,192.97	51,928,009.62
4 months-1 year	119,046,525.55	150,409,259.97
1-2 years	90,009,423.77	57,797,898.87
2-3 years	31,048,337.92	33,184,637.97
Over 3 years	62,759,843.35	65,071,004.52
Total	648,352,428.48	924,020,613.80

21. Contract liabilities

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Receipts in advance	83,749,468.02	32,463,654.22
Total	83,749,468.02	32,463,654.22

The higher increase in balance at the end of the year of contract liabilities over the beginning of the year was mainly due to the increase in receipts in advance from individual customers.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

22. Salaries payable

(1) Presentation of salaries payable

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
I. Short-term salaries	57,276,942.10	209,028,019.61	211,811,076.84	54,493,884.87
II. Post-employment benefits — defined contribution plans	—	11,938,024.09	11,938,024.09	—
Total	57,276,942.10	220,966,043.70	223,749,100.93	54,493,884.87

(2) Presentation of short-term salaries

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
1. Wages, bonuses, allowances and subsidies	42,149,843.83	186,550,961.53	189,650,388.35	39,050,417.01
2. Staff welfare	—	4,351,108.97	4,351,108.97	—
3. Social insurances	—	8,913,733.78	8,913,733.78	—
Including: Medical insurance	—	7,261,368.04	7,261,368.04	—
Work injury insurance	—	455,716.13	455,716.13	—
Maternity insurance	—	1,196,649.61	1,196,649.61	—
4. Housing provident fund	—	7,159,420.68	7,159,420.68	—
5. Union fund and staff education fund	15,127,098.27	2,052,794.65	1,736,425.06	15,443,467.86
Total	57,276,942.10	209,028,019.61	211,811,076.84	54,493,884.87

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

22. Salaries payable (continued)

(3) Presentation of defined contribution plan

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
1. Basic pension insurance	—	11,444,186.93	11,444,186.93	—
2. Unemployment insurance	—	493,837.16	493,837.16	—
Total	—	11,938,024.09	11,938,024.09	—

Other descriptions:

The Group participates in social insurance plans established by government agencies as required. According to the plans, the Group pays premiums to these plans in accordance with the relevant regulations of the local government. In addition to the above payment of premiums, the Group no longer undertakes further payment obligations. After the payment of relevant premiums, the Company has no right to utilize the above premiums. The corresponding expenditures are charged to the current profit or loss or related asset cost when incurred.

Salaries payables of the Group as at the end of the year included accrued wages, bonuses and allowances of RMB39,050,417.01 in total, which were expected to be paid in the first half of 2021.

As at 31 December 2020, contributions to all planned pension insurances and unemployment insurances of the Group have made.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

23. Taxes Payable

Item	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Value-added tax	15,593,882.12	2,230,290.05
Enterprise income tax	6,510,813.92	6,797,851.33
Individual income tax	1,083,896.01	76,889.55
Urban maintenances and construction tax	1,015,263.75	770,579.83
Property tax	1,231,131.25	1,238,532.15
Land use tax	639,164.00	1,275,916.34
Educational surcharges	724,499.53	550,414.17
Local water conservancy construction funds	74,457.99	55,041.43
Stamp duty	236,453.80	218,705.35
Others	82,543.23	179,241.31
Total	27,192,105.60	13,393,461.51

Other descriptions:

As at 31 December 2020, taxes payable of the Group included Hong Kong profit tax payable of RMB nil.

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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

24. Other payables

Item	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Interests payable	—	6,389,751.57
Other payables	43,853,326.94	55,033,779.68
Total	43,853,326.94	61,423,531.25

(1) Interests Payable

Item	Unit: RMB	
	Balance at the end of the period	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
Interests payable for short-term borrowings	—	2,270,088.67
Interests on long-term borrowings with principal repayable and interest payable by installments	—	1,283,106.47
Interests on long-term payables with principal repayable and interest payable by installments	—	2,281,000.87
Total	—	6,389,751.57

Details of significant overdue and unpaid interests:

As of 31 December 2020, the Group had no overdue unpaid interest.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

24. Other payables (continued)

(2) Other payables

1) Presentation of other payables by nature

Item	Balance at the end of the period	Balance at the beginning of the period
Accrued energy charges	28,988,476.97	35,876,548.51
Deposits	8,968,660.35	9,651,252.85
Others	5,896,189.62	9,505,978.32
Total	43,853,326.94	55,033,779.68

Unit: RMB

2) Significant other payables aging over 1 year

At the end of the year, the Group had no significant other payables aging over 1 year.

25. Non-current liabilities due within one year

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term borrowings due within one year	76,549,075.94	425,044,064.29
Long-term payables due within one year	53,044,531.57	57,592,842.49
Lease liabilities due within one year	10,191,315.95	—
Total	139,784,923.46	482,636,906.78

Unit: RMB

26. Other current liabilities

Item	Balance at the end of the period	Balance at the beginning of the period
Trade acceptance bills that have been endorsed but not yet matured	42,860,229.13	87,557,572.20
Output tax to be transferred	7,335,204.95	—
Total	50,195,434.08	87,557,572.20

Unit: RMB

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

27. Long-term borrowings

(1) Category of long-term borrowings

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Pledged borrowings	0.00	250,000,000.00
Secured borrowings	190,612,226.47	175,044,064.29
Less: Amounts due within one year	(76,549,075.94)	(425,044,064.29)
Total	114,063,150.53	—

Information on the classification of long-term borrowings:

Long-term borrowings due within one year have been reclassified to “non-current liabilities due within one year”. See note VII.25.

Profile of maturity dates of long-term borrowings is as follows:

Unit: RMB

Item	Amount at the end of the year	Amount at the beginning of the year
Secured borrowings	190,612,226.47	175,044,064.29
Pledged borrowings	—	250,000,000.00
Total	190,612,226.47	425,044,064.29

The carrying amounts of the aforementioned borrowings shall be repaid in the following periods:

Within one year	76,549,075.94	425,044,064.29
After one year from the balance sheet date but within two years	114,063,150.53	—
Less: Amount due within one year shown under current liabilities	(76,549,075.94)	(425,044,064.29)
Amount shown under non-current liabilities	114,063,150.53	—

Details of interest rates: the interest rates of long-term borrowings of the Group for 2020 ranged between 7%–10%.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

28. Lease liabilities

Unit: RMB

Item	Amount at the end of the year	Amount at the beginning of the year
Lease liabilities	15,159,675.79	—
Less: Amounts due within one year	(10,191,315.95)	—
Total	4,968,359.84	—

29. Long-term payables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term payables	4,585,000.00	58,045,884.69
Total	4,585,000.00	58,045,884.69

(1) Presentation of long-term payables by payment nature

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Leaseback financing	4,585,000.00	58,045,884.69
Total	4,585,000.00	58,045,884.69

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

29. Long-term payables (continued)

(1) Presentation of long-term borrowings by payment nature (continued)

Other descriptions:

Details of interest rates: the effective interest rates of long-term payables of the Group for 2020 was 10.90%.

(2) Profile of maturity dates of long-term payables

Item	Unit: RMB	
	Amount at the end of the year	Amount at the beginning of the year
Leaseback financing	57,629,531.57	115,638,727.18
Total	57,629,531.57	115,638,727.18

The carrying amounts of the aforementioned borrowings shall be repaid in the following periods:

Within one year	53,044,531.57	57,592,842.49
After one year from the balance sheet date but within two years	4,585,000.00	54,116,154.13
After two years from the balance sheet date but within five years	—	3,929,730.56
Less: Amount due within one year shown under current liabilities	(53,044,531.57)	(57,592,842.49)
Amount shown under non-current liabilities	4,585,000.00	58,045,884.69

30. Estimated liabilities

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period	Cause
Pending litigations	14,392,824.64	5,734,176.25	See note XIV.2 for details
Total	14,392,824.64	5,734,176.25	—



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

31. Deferred income

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Cause
Government grants	7,386,306.54	—	209,825.68	7,176,480.86	Asset-related government grants
Total	7,386,306.54	—	209,825.68	7,176,480.86	—

Items involving government grants:

Unit: RMB

Liability item	Balance at the beginning of the period	Amount of new grants during the period	Amount included in non-operating income during the period	Amount included in other income during the period	Amount charged against costs and expenses during the period	Other Changes	Balance at the end of the period	Asset-related/revenue-related
Grants for ancillary infrastructure	6,954,855.00	0.00	0.00	173,871.38	0.00	0.00	6,780,983.62	Asset-related
Grants for defense basement construction	431,451.54	0.00	0.00	35,954.30	0.00	0.00	395,497.24	Asset-related
Total	7,386,306.54	0.00	0.00	209,825.68	0.00	0.00	7,176,480.86	—

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

31. Deferred income (continued)

Other descriptions:

Note 1: 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, Shouguang City, 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's depreciation of the underlying assets for the year amounting RMB173,871.38 was charged to the profit or loss for the current period since the relevant infrastructure has been completed this year.

Note 2: 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, Wendeng District, Weihai City, 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 RMB35,954.30 was charged to the profit or loss for the current period.

32. Share Capital

Unit: RMB

	Movement for the period (increase/decrease) (+, -)						Balance at the end of the period
	Balance at the beginning of the period	Issue of new shares	Bonus issue	Conversion of reserves into shares	Others	Sub-total	
Total number of shares	797,848,400.00	—	—	—	—	—	797,848,400.00

33. Capital Reserves

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
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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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

34. Other comprehensive income

Unit: RMB

Item	Amount for the period								Balance at the end of the period
	Balance at the beginning of the period	Amount before income tax for the period	Less: Transfer of amount previously included in other comprehensive income to profit or loss for the current period	Less: Transfer of amount previously included in other comprehensive income to retained earnings for the current period	Less: Income tax expenses	Attributable to the parent company after tax	Attributable to minority shareholders after tax		
I. Other comprehensive income that may not be reclassified to profit or loss	—	—	—	—	—	—	—	—	
II. Other comprehensive income that will be reclassified to profit or loss	(3,055,060.57)	1,154,980.84	—	—	—	1,039,482.75	115,498.09	(2,015,577.82)	
Exchange differences on translation of foreign financial statements	(3,055,060.57)	1,154,980.84	—	—	—	1,039,482.75	115,498.09	(2,015,577.82)	
Total other comprehensive income	(3,055,060.57)	1,154,980.84	—	—	—	1,039,482.75	115,498.09	(2,015,577.82)	

35. Special Reserves

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Safety production fees	—	26,986,008.44	26,986,008.44	—
Total	—	26,986,008.44	26,986,008.44	—

Other description, including the increase or decrease movements during the period and the reason(s) for such movement:

According to the Measures on the Withholding and Usage of Safety Production Fees of Enterprises (企業安全生產費用提取和使用管理辦法) (Caiqi [2012] No.16) jointly issued by the Ministry of Finance and the State Administration of Work Safety, the Group provided for and utilised production safety fee in accordance with the relevant requirement.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

36. Surplus Reserves

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory surplus reserve	187,753,923.88	—	—	187,753,923.88
Total	187,753,923.88	—	—	187,753,923.88

37. General risk reserve

Unit: RMB

Item	Amount at the beginning of the year	Increase during the year	Decrease during the year	Amount at the end of the year
General risk reserve	11,236.91	—	—	11,236.91
Total	11,236.91	—	—	11,236.91

38. Undistributed profit

Unit: RMB

Item	Current period	Last period
Undistributed profit as at the end of prior period before adjustments	(98,208,687.79)	98,100,580.11
Undistributed profit at the beginning of the period after adjustments	(98,208,687.79)	98,100,580.11
Add: Net profit attributable to owners of the parent company for the period	32,178,630.99	(196,309,267.90)
Undistributed profit at the end of the period	(66,030,056.80)	(98,208,687.79)

The Company did not distribute dividends during the year. During the track record period, the Company did not distribute dividends in 2019. As of 31 December 2020, the Company has no profit available for distribution to shareholders.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

38. Undistributed profit (continued)

Adjustments breakdown of undistributed profits at the beginning of the period:

- (1) The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the undistributed profits as at the beginning of the period amounted to nil.
- (2) The effect of the changes in accounting policies on the undistributed profits as at the beginning of the period amounted to nil.
- (3) The effect of corrections of significant accounting errors on the undistributed profits as at the beginning of the period amounted to nil.
- (4) The effect of the change of the scope of combination under common control on the undistributed profits as at the beginning of the period amounted to nil.
- (5) The effect of other adjustments on the undistributed profits as at the beginning of the period amounted to nil.

39. Minority interests

Equity of minority shareholders attributable to minority shareholders in each subsidiary

Unit: RMB

Name of subsidiary	Percentage of minority shareholding (%)	Balance at the end of the year	Balance at the beginning of the year
Shouguang Baolong	30.00	(50,841,975.41)	(31,120,652.72)
Baolong Consultancy	50.00	71,780,347.47	72,757,222.66
MPM	10.00	(105,566.85)	(196,032.19)
Total	—	20,832,805.21	41,440,537.75

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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

40. Operating revenue and operating costs

Unit: RMB

Item	Amount for the period		Amount for the last period	
	Revenue	Cost	Revenue	Cost
Principal operations	2,945,891,154.47	2,844,382,010.97	4,314,768,095.01	3,966,149,076.52
Other operations	63,827,875.19	58,054,718.64	74,136,120.90	68,473,668.75
Total	3,009,719,029.66	2,902,436,729.61	4,388,904,215.91	4,034,622,745.27

Whether the lower of the audited net profit before or after deducting extraordinary gains or losses is a negative number

Yes No

Unit: RMB

Item	2020	2019	Note
Operating revenue	3,009,719,029.66	4,388,904,215.91	Mainly comprised of revenue from sales of products, materials and waste
Deduction amount from operating revenue	63,827,875.19	74,136,120.90	Mainly comprised of revenue from sales of materials and waste
Including:			
Revenue from other operations	63,827,875.19	74,136,120.90	Mainly comprised of revenue from sales of materials and waste
Subtotal of revenue from operations not related to principal operations	63,827,875.19	74,136,120.90	Mainly comprised of revenue from sales of materials and waste
Subtotal of commercially non-substantial revenue	—	—	Nil
Amount of operating revenue after deduction	2,945,891,154.47	4,314,768,095.01	Mainly comprised of revenue from sales of products



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

40. Operating revenue and operating costs (continued)

Information on revenue:

Unit: RMB

Contract category	Pipe products	Three kinds of pumping units	Petroleum machinery parts	Tube blanks	High-end casting and forging products	Others	Total
Type of goods							
Including:							
Pipe products	2,458,265,692.32	—	—	—	—	—	2,458,265,692.32
Three kinds of pumping units	—	40,046,101.68	—	—	—	—	40,046,101.68
Petroleum machinery parts	—	—	8,346,558.77	—	—	—	8,346,558.77
Tube blanks	—	—	—	178,497,433.73	—	—	178,497,433.73
High-end casting and forging products	—	—	—	—	241,350,397.49	—	241,350,397.49
Others	—	—	—	—	—	83,212,845.67	83,212,845.67
By business location							
Including:							
China	2,176,875,040.73	36,361,546.13	1,164,776.68	178,497,433.73	241,350,397.49	83,110,942.64	2,717,360,137.40
Outside China	281,390,651.59	3,684,555.55	7,181,782.09	—	—	101,903.03	292,358,892.26
Type of contracts							
Including:							
Revenue recognised at a point in time	2,458,265,692.32	40,046,101.68	8,346,558.77	178,497,433.73	241,350,397.49	83,212,845.67	3,009,719,029.66
Total	2,458,265,692.32	40,046,101.68	8,346,558.77	178,497,433.73	241,350,397.49	83,212,845.67	3,009,719,029.66

Information on performance obligations:

The Group as primary obligor satisfies 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 are 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.

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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

40. Operating revenue and operating costs (continued)

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 RMB361,000,000.00 as at the end of the reporting date, and is expected to be recognised as revenue in 2021.

Other descriptions:

Among the revenues recognised this year, the amount included in contract liabilities at the end of the previous year was RMB32,463,654.22.

41. Taxes and surcharges

Item	Unit: RMB	
	Amount for the period	Amount for the last period
Urban maintenances and construction tax	4,167,747.78	7,293,848.12
Educational surcharges	2,973,995.71	5,209,746.09
Property tax	4,948,156.52	4,963,595.80
Land use tax	5,103,421.99	5,106,999.76
Local water conservancy construction funds	297,564.49	521,022.68
Other taxes	1,625,601.23	2,159,214.21
Total	19,116,487.72	25,254,426.66

42. Selling expenses

Item	Unit: RMB	
	Amount for the period	Amount for the last period
Delivery fees	—	67,775,409.06
Staff remunerations	5,310,781.48	4,166,114.60
Agency fees	2,741,588.42	1,695,829.67
Depreciation charges	266,799.66	166,483.04
Travelling expenses	449,573.11	878,574.05
Entertainment expenses	2,817,343.60	4,217,186.01
Transportation fees	213,777.86	312,550.12
Office expenses	266,415.16	796,505.05
Others	2,882,053.63	4,331,797.93
Total	14,948,332.92	84,340,449.53



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

43. Administrative expenses

Item	Unit: RMB	
	Amount for the period	Amount for the last period
Amortisation of intangible assets	11,429,836.48	11,640,982.42
Depreciation charges	70,525,510.36	47,815,691.20
Staff remunerations	46,082,534.12	49,972,461.91
Machinery material consumables	11,945,724.18	22,439,701.29
Entertainment expenses	2,993,256.31	3,343,149.06
Board of directors' expenses	3,138,878.65	2,996,770.36
Utilities	12,575,254.48	22,025,055.76
Agency fees	2,919,698.99	3,433,254.08
Repair charges	16,921,497.86	11,054,972.70
Others	15,938,645.43	18,883,978.17
Total	194,470,836.86	193,606,016.95

Auditors' remuneration (excluding value added tax) included in the agency fees under the administrative expenses of the Group is specified below:

Item	Unit: RMB	
	Amount for the year	Amount for the last year
Agency fees	2,919,698.99	3,433,254.08
Including: Auditors' remuneration	1,320,754.68	1,273,584.87
Including: — Audit service fees	1,273,584.87	1,273,584.87
— Others	47,169.81	—
Total	2,919,698.99	3,433,254.08

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V. Notes to the Consolidated Financial Statements (continued)

44. Research and development expenditures

Unit: RMB

Item	Amount for the period	Amount for the last period
Research and development of new products for the year	44,788,225.44	56,348,398.99
Amortisation of non-patent technology for the year	7,754,585.52	7,481,930.91
Total	52,542,810.96	63,830,329.90

Other descriptions:

Details of the provision for research and development expenses for the year are provided in note VII.15.

45. Finance expenses

Unit: RMB

Item	Amount for the period	Amount for the last period
Interest expenses	137,373,401.15	159,146,751.07
Less: Interest income	5,507,436.70	8,791,007.22
Add: Foreign exchange losses	20,442,211.52	(10,538,743.57)
Other expenses	6,904,407.55	6,509,178.00
Total	159,212,583.52	146,326,178.28



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V. Notes to the Consolidated Financial Statements (continued)

46. Other income

	Unit: RMB	
Source of other income	Amount for the period	Amount for the last period
Subsidies and grants for recycling resource enterprises	—	11,703,891.00
Company's corporate support subsidies	13,041,300.00	—
Stability subsidies and social insurance subsidies	2,244,789.32	563,748.95
Bonuses for technology upgrade and energy conversion	—	1,108,200.00
Grants for defense basement construction	35,954.30	287,634.36
Special funds for external trade development	—	123,700.00
Reward for technological innovation patents and acquisition of international brands	1,630,000.00	—
Others	818,871.38	245,120.00
Total	17,770,915.00	14,032,294.31

47. Investment income

	Unit: RMB	
Item	Amount for the period	Amount for the last period
Gain from long-term equity investments accounted for using the equity method	(242,363.72)	(106,457.89)
Others	202,596.63	3,490,824.04
Total	(39,767.09)	3,384,366.15

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V. Notes to the Consolidated Financial Statements (continued)

48. Credit impairment losses

Item	Unit: RMB	
	Amount for the period	Amount for the last period
Loss on bad debts of bills receivable	936,263.73	(2,602,376.56)
Loss on bad debts of accounts receivable	4,580,429.76	(4,768,618.30)
Loss on bad debts of other receivables	3,314,998.60	(2,376,261.95)
Loss on impairment of loans	(7,689,658.49)	(7,256,011.73)
Total	1,142,033.60	(17,003,268.54)

49. Loss on impairment of assets

Item	Unit: RMB	
	Amount for the period	Amount for the last period
II. Loss on impairment of inventories and loss on impairment of costs of contract performance	(1,047,770.83)	(13,855,612.46)
XI. Loss on impairment of goodwill	—	(23,683,383.21)
Total	(1,047,770.83)	(37,538,995.67)



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V. Notes to the Consolidated Financial Statements (continued)

50. Gain on disposal of assets

Unit: RMB

Source of gain on disposal of assets	Amount for the period	Amount for the last period
Gains on disposal of non-current assets	353,358,239.23	7,152,864.22
Including: Gains on disposal of non-current assets classified as held-for-sale	—	—
Including: Gains on the disposal of fixed assets	—	—
Gains on disposal of intangible assets	—	—
Gains on disposal of non-current assets not classified as held-for-sale	353,358,239.23	7,152,864.22
Including: Gains on the disposal of fixed assets	180,980,820.92	2,140,948.22
Gains on disposal of intangible assets	172,377,418.31	5,011,916.00
Total	353,358,239.23	7,152,864.22

The gains on disposal of assets of the Group for the year included the profit of RMB353,358,239.23 from the sale of buildings and land.

The Group plans to integrate existing production plants to achieve intensive production management, further reduce costs and increase efficiency, and improve the competitiveness of the Group's products and the Group's profitability. According to the resolutions of the second extraordinary general meeting of the Group in 2020, the Group sold part of the land and buildings to Shandong Shouguang Vegetable Wholesale Market Co., Ltd., with the transaction price of RMB50,280.80 ten thousand as valued by Chungrui Worldunion Assets Appraisal Group Co., Ltd on relevant assets.

51. Non-operating Income

Unit: RMB

Item	Amount for the period	Amount for the last period	Amount credited to non-recurring profit or loss for the current period
Others	7,928,370.13	9,730,641.34	7,928,370.13
Total	7,928,370.13	9,730,641.34	7,928,370.13

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(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

52. Non-operating expenses

Unit: RMB

Item	Amount for the period	Amount for the last period	Amount credited to non-recurring profit or loss for the current period
Donations to external parties	120,000.00	1,175,000.00	120,000.00
Scrap loss of non-current assets loss	2,426,957.31	1,936,365.35	2,426,957.31
Estimated liabilities	25,358,236.00	29,170,030.14	25,358,236.00
Loss of creditor's rights	—	3,438,367.95	—
Others	669,527.84	189,339.69	669,527.84
Total	28,574,721.15	35,909,103.13	28,574,721.15

53. Income tax expenses

(1) Income tax expenses list

Unit: RMB

Item	Amount for the period	Amount for the last period
Current income tax expenses	1,251,926.93	3,028,323.01
Deferred income tax expenses	4,821,219.67	6,652,382.55
Total	6,073,146.60	9,680,705.56



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V. Notes to the Consolidated Financial Statements (continued)

53. Income tax expenses (continued)

(2) Reconciliations between accounting profit and income tax expenses

Unit: RMB

Item	Amount for the period
Total profit	17,528,546.96
Income tax expenses calculated at statutory/applicable tax rate	2,629,282.04
Effect of different tax rates applicable to subsidiaries	(16,803,022.11)
Effect of non-taxable income	44,785.84
Effect of non-deductible costs, expenses and loss	695,107.57
Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets	(14,114,859.87)
Effect of deductible temporary differences or deductible losses on deferred income tax assets unrecognized in the period	43,212,638.61
Effect of additions and deductions in research and development expenditures	(9,590,785.48)
Income tax expenses	6,073,146.60

54. Other comprehensive income

Refer to note VII.34 for details.

55. Items of statement of cash flows

(1) Other cash received relating to operating activities

Unit: RMB

Item	Amount for the period	Amount for the last period
Government grants	17,561,596.32	30,453,297.60
Interest income	5,719,712.15	8,660,114.82
Decrease in security deposits	—	266,222,500.56
Unfreezing of bank deposits	—	3,620,000.00
Refund of excess value-added tax paid	0.00	12,549,715.93
Refund of tax overpaid	0.00	943,465.09
Amounts due from administrative entities	23,886,941.48	0.00
Others	14,976,987.77	4,201,886.55
Total	62,145,237.72	326,650,980.55

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

55. Items of statement of cash flows (continued)

(2) Other cash paid relating to operating activities

Item	Unit: RMB	
	Amount for the period	Amount for the last period
Delivery fees	0.00	68,658,609.54
Expenditures for research and development of new products	36,630,431.65	40,973,479.68
Consumables	4,576,755.04	8,919,960.92
Agency fees	5,601,454.49	5,075,345.97
Travelling expenses	631,460.52	1,370,422.28
Repair charges	13,839,218.26	11,054,972.70
Utilities	12,559,907.95	22,025,055.76
Entertainment expenses	5,806,119.91	7,560,335.07
Increase in bill deposits	18,000,000.00	0.00
Compensations for investors' claims	25,814,869.76	33,226,680.18
Handling charges by financial institutions	3,532,525.18	6,426,577.21
Others	54,018,603.75	51,599,117.03
Total	181,011,346.51	256,890,556.34



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

56. Supplemental information for statement of cash flows

(1) Supplemental information for statement of cash flows

Supplemental information	Amount for the period	Amount for the last period
		Unit: RMB
1. Reconciliations of net profit to cash flows from operating activities:		
Net profit	11,455,400.36	(224,907,837.56)
Add: Provision for impairment of assets	1,047,770.83	37,538,995.67
Credit impairment losses	(1,142,033.60)	17,003,268.54
Depreciation of fixed assets, oil and gas assets and productive biological assets	234,379,707.18	233,184,214.62
Depreciation of right-of-use assets	0.00	0.00
Amortisation of intangible assets	19,184,422.00	19,122,913.33
Amortization of long-term unamortized expenses	0.00	0.00
Loss on disposal of fixed assets, intangible assets and other long-term assets	(353,358,239.23)	(7,152,864.22)
Loss on retirement of fixed assets	2,426,957.31	1,936,365.35
Loss of changes in fair value	0.00	0.00
Finance expenses	123,947,523.59	153,997,969.29
Investment loss	39,767.09	(3,384,366.15)
Decrease in deferred income tax assets	5,014,870.18	7,024,583.13
Increase in deferred income tax liabilities	(193,650.51)	(372,200.58)
Decrease in inventories	144,296,653.68	93,998,323.97
Decrease in trade receivables	231,613,916.19	291,359,462.32
Increase in trade payables	(211,811,887.01)	69,004,590.37
Others	0.00	0.00
Net cash flows generated from operating activities	206,901,178.06	688,353,418.08
2. Significant investing and financing activities not involving cash receipt or payment:		
Debts transferred to capital	0.00	0.00
Convertible corporate bonds due within one year	0.00	0.00
Fixed assets under finance lease	0.00	0.00
3. Net changes in cash and cash equivalents:		
Balance of cash at the end of the period	699,989,196.48	496,256,836.18
Less: Balance of cash at the beginning of the period	496,256,836.18	578,924,482.20
Add: Balance of cash equivalents at the end of the period	0.00	0.00
Less: Balance of cash equivalents at the beginning of the period	0.00	0.00
Net increase in cash and cash equivalents	203,732,360.30	(82,667,646.02)

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

56. Supplemental information for statement of cash flows (continued)

(2) Composition of cash and cash equivalents

Unit: RMB

Item	Amount at the end of the period	Amount at the beginning of the period
I. Cash	699,989,196.48	496,256,836.18
Including: Cash on hand	53,744.41	183,974.68
Bank deposits readily available for payments	509,428,523.97	298,376,840.40
Other monetary funds readily available for payments	190,506,928.10	197,696,021.10
III. Balance of cash and cash equivalents at the end of the period	699,989,196.48	496,256,836.18

Other description:

At the end of the year, the Company had security deposits for bank acceptance bills with maturity date over 3 months of RMB59,664,500.00.

As of 31 December 2020, the Company had balances of monetary funds of RMB759,979,803.03, which is included in the statement of cash flows under cash balance at the end of the period amounting RMB699,989,196.48. The difference was the security deposits for bank acceptance bills due over 3 months of RMB59,664,500.00 and the frozen bank deposits of RMB 326,106.55 due to litigations. As it is restricted for use, it was not accounted for as cash and cash equivalents.

57. Assets with ownership or right to use restrictions

Unit: RMB

Item	Book value at the end of the period	Reason for restriction
Monetary funds	249,576,453.10	Security deposits
Bills receivable	117,520,033.97	Pledge of bills
Fixed assets	230,351,714.63	Charge for borrowings
Intangible assets	158,156,941.10	Charge for borrowings
Monetary funds	326,106.55	Frozen for litigation
Financing receivables	8,000,000.00	Pledge of bills
Accounts receivable	29,368,652.94	Factoring financing for accounts receivable
Total	793,299,902.29	—



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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

58. Foreign currency monetary items

(1) Foreign currency monetary items

Unit: RMB

Item	Balance in foreign currency at the end of the period	Exchange rate	Balance in RMB at the end of the period
Monetary funds	—	—	197,995,726.66
Including: USD	30,344,637.26	6.5249	197,995,723.66
EUR	0.37	8.0250	2.97
HKD	0.03	0.8416	0.03
Accounts receivable	—	—	113,919,540.28
Including: USD	17,278,437.25	6.5249	112,740,075.21
EUR	146,973.84	8.0250	1,179,465.07
Short-term borrowings	—	—	32,624,500.00
Including: USD	5,000,000.00	6.5249	32,624,500.00
Accounts payables	—	—	20,019,063.18
Including: USD	3,068,102.68	6.5249	20,019,063.18
Contract liabilities	—	—	27,324,814.53
Including: USD	4,187,775.22	6.5249	27,324,814.53
Long-term borrowings	—	—	—

(2) Information on foreign operating entities including (in case of significant foreign operating entities) the disclosures of their overseas principal place of business, reporting currency and basis for selection, and reasons for changes of the reporting currency.

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.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

59. Government grants

(1) General information of government grants

Unit: RMB

Type	Amount	Item presented	Amount included in profit or loss for the period
corporate support subsidies	13,041,300.00	Other income	13,041,300.00
Stability subsidies and social insurance subsidies	2,244,789.32	Other income	2,244,789.32
Grants for defense basement construction	395,497.24	Deferred income	35,954.30
Reward for technological innovation patents and acquisition of international brands	1,630,000.00	Other income	1,630,000.00
Grants for ancillary infrastructure	6,780,983.62	Deferred income	173,871.38
Others	645,000.00	Other income	645,000.00
Total	24,737,570.18	—	17,770,915.00

(2) Refund of government grants

Applicable Not applicable

Other description:

The Group had no refund of government grants during the period.



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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

VI. Changes in scope of consolidation

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. So the company has not been included in the scope of consolidation during the year.

Wendeng Baolong Recyclable Resource Co., Ltd. (文登市寶隆再生資源有限公司), 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 24 December 2019, the Company received the notice of deregistration approval from the Administrative Examination and Approval Service Bureau of Wendeng City, granting the approval for deregistration of the company. So the company has not been included in the scope of consolidation during the year.

VII. Interests in other entities

1. Interests in subsidiaries

(1) Structure of the business group

Name of subsidiary	Principal place of operation	Place of registration	Business nature	Issued share capital/ registered capital	Form of business/ nature of entity	Percentage of shareholding		Type of legal entity	Method of acquisition
						Direct	Indirect		
MPM	Hong Kong, China	Hong Kong, China	Trading	USD100 ten thousand	Limited company	90.00%	0.00%	For-profit corporation	Business combination under uncommon control
Shouguang Maolong	Shouguang, China	Shouguang, China	Manufacturing	RMB71,238 ten thousand	Limited company	100.00%	0.00%	For-profit corporation	Business combination under uncommon control
Molong Equipment	Shouguang, China	Shouguang, China	Manufacturing	USD100 ten thousand	Limited company	0.00%	100.00%	For-profit corporation	Business combination under uncommon control
Shouguang Baolong	Shouguang, China	Shouguang, China	Manufacturing	RMB15,000 ten thousand	Limited company	70.00%	0.00%	For-profit corporation	Establishment by investment
Weihai Baolong	Weihai, China	Weihai, China	Manufacturing	RMB2,600 ten thousand	Limited company	61.54%	38.46%	For-profit corporation	Business combination under uncommon control
Molong Logistic	Shouguang, China	Shouguang, China	Services	RMB300 ten thousand	Limited company	100.00%	0.00%	For-profit corporation	Establishment by investment
Molong I&E	Shouguang, China	Shouguang, China	Import and export	RMB1,000 ten thousand	Limited company	100.00%	0.00%	For-profit corporation	Establishment by investment
Baolong Consultancy	Shouguang, China	Shouguang, China	Services	RMB15,000 ten thousand	Limited company	0.00%	50.00%	For-profit corporation	Business combination under uncommon control
Molong Energy	Shouguang, China	Shouguang, China	Services	RMB1,000 ten thousand	Limited company	51.00%	0.00%	For-profit corporation	Establishment by investment

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

VII. Interests in other entities (continued)

1. Interests in subsidiaries (continued)

(1) Structure of the business group (continued)

Save for the disclosed above, as at 31 December 2020, none of the subsidiaries of the Company has issued any 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.

(2) Significant non-wholly owned subsidiaries

Unit: RMB

Name of subsidiary	Shareholdings of minority shareholders	Profit and loss attributable to minority shareholders for the period	Dividends declared to minority shareholders for the period	Balance of minority shareholders at the end of the period
Shouguang Baolong	30.00%	(19,721,322.69)	0.00	(50,841,975.41)
Baolong Consultancy	50.00%	(976,875.19)	0.00	71,780,347.47
Total	—	(20,698,197.88)	0.00	20,938,372.06

(3) Key financial information of significant non-wholly owned subsidiaries

Unit: RMB

Name of subsidiary	Balance at the end of the period						Balance at the beginning of the period					
	Non-current assets		Total assets	Current liabilities		Total liabilities	Non-current assets		Total assets	Current liabilities		Total liabilities
Shouguang Baolong	358,593,909.81	433,636,788.16	792,230,697.97	899,430,924.37	0.00	899,430,924.37	513,557,768.92	464,035,585.79	977,593,354.71	1,018,236,789.18	0.00	1,018,236,789.18
Baolong Consultancy	143,581,857.20	0.00	143,581,857.20	21,162.25	0.00	21,162.25	145,547,064.05	7,415.35	145,554,479.40	40,034.08	0.00	40,034.08



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

VII. Interests in other entities (continued)

1. Interests in subsidiaries (continued)

(3) Key financial information of significant non-wholly owned subsidiaries (continued)

Unit: RMB

Name of subsidiary	Amount for the period				Amount for the last period			
	Operating revenue	Total comprehensive		Cash flows from operating activities	Operating revenue	Total comprehensive		Cash flows from operating activities
		Net profit	income			Net profit	income	
Shouguang Baolong	1,686,441,547.74	(66,556,791.93)	(66,556,791.93)	190,040,654.33	2,429,768,366.38	(74,793,250.02)	(74,793,250.02)	356,131,767.71
Baolong Consultancy	1,752,079.19	(1,953,750.37)	(1,953,750.37)	9,694,608.84	1,105,495.28	(2,810,709.71)	(2,810,709.71)	(100,011,151.88)

(4) Major restrictions on the use of assets and settlement of debts of the business group

Nil

(5) Provision of financial or other support for structured entity that is consolidated into the consolidated financial statements

Nil

2. Transactions with changes in share of owners' equity but retain control over subsidiary

(1) Details of the change in owners' equities of the subsidiary

Nil

3. Interests in joint venture arrangement or associate

(1) Company of joint venture or associate

Unit: RMB

Name of associate	Principal place of operation	Place of registration	Business nature	Percentage of shareholding (%)		Accounting method for investment in joint venture or associate
				Direct	Indirect	
				Karamay Yalong Petroleum Machinery Co., Ltd	Karamay	

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

VII. Interests in other entities (continued)

3. Interests in joint venture arrangement or associate (continued)

(2) Summarised financial information for insignificant joint venture or associate

	Balance at the end of the period/ Amount for the period	Balance at the beginning of the period/ Amount for the last period
Joint venture:	—	—
Total amount of the following items calculated by proportion of shareholding	—	—
Associate:	—	—
Total carrying amount of investment	2,314,697.29	2,557,061.01
Total amount of the following items calculated by proportion of shareholding	—	—
— Net profit	(242,363.72)	(106,457.89)

(3) Major restrictions on the ability of transferring funds to the Company of joint venture or associate

There were no material restrictions on the capacity of an associate to transfer capital to the Company.

(4) Excessive losses incurred by joint venture or associate

None of the associates incurred any excessive losses.

(5) Unrecognised commitment relating to investment in joint venture

The Group did not have any unrecognised commitment in relation to joint ventures.

(6) Contingent liabilities relating to investment of joint venture or associate

The Group had no contingent liabilities relating to investment of joint venture.

4. Interest in structured entity that is not included in the scope of consolidated financial statements

Descriptions of not consolidating structured entities into the consolidated financial statements:

The Group had no structured entity that is not included in the scope of consolidated financial statements.



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(Unless otherwise indicated, all figures are stated in RMB)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's major financial instruments include borrowings, accounts receivable, accounts payable and others. Detailed descriptions of these financial instruments are set out in Note VI. Risks associated with these financial 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. Objectives and policies of risk management

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 benefits 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) Market risks

1) Foreign exchange risk

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 2020, 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.

Item	31 December 2020	31 December 2019
Monetary funds — USD	197,995,723.66	116,873,789.09
Monetary funds — EUR	2.97	2.89
Monetary funds — HKD	0.03	0.00
Accounts receivable — USD	112,740,075.21	148,370,657.42
Accounts receivable — EUR	1,179,465.07	1,086,523.61
Short-term borrowings — USD	32,624,500.00	34,881,000.00
Accounts payable — USD	20,019,063.18	31,540,777.37
Contract liabilities — USD	27,324,814.53	0.00



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Objectives and policies of risk management (continued)

(1) Market risks (continued)

1) Foreign exchange risk (continued)

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 financial 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) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market interest rate. The Group's interest rate risk arises from interest-bearing liabilities, such as borrowings from financial institutions. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed 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 2020, the Group's interest-bearing liabilities were mainly floating-rate loan contracts amounting to RMB573,800,000.00 (31 December 2019: RMB594,800,000.00) and fixed-rate loan contracts denominated in RMB amounting to RMB1,728,667,136.33 (31 December 2019: RMB1,875,393,674.86).

The Group's risk of changes in fair value of financial instruments resulted from the changes in interest rates was mainly associated with fixed-rate bank loans. The Group aims at maintaining these fixed rate bank loans at floating rates.

The Group's risk of changes in cash flow of financial instruments resulted from the changes in interest rates was mainly associated with floating-rate bank loans. The Group's policy is to maintain these loans at floating 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 sufficient 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 fluctuations by shortening the duration of a single borrowing and special agreement on early repayment terms.

3) Price risk

The Group sells metal products at market price so as to be influenced by fluctuation in selling price.



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(Unless otherwise indicated, all figures are stated in RMB)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(continued)*

1. Objectives and policies of risk management *(continued)*

(2) Credit risk

As at 31 December 2020, the biggest credit risk exposure that may cause financial loss to the Group mainly derived from the fact that the other party of the contract, to which the Company is also a party, could not fulfil their obligations and caused loss to the Group's financial assets, which includes:

The book value of the financial asset which has been recognised in the consolidated balance sheet; in respect of financial instruments that are measured by fair value, the book value reflects its risk exposure, but not its biggest risk exposure, the biggest risk exposure will change as the future fair value changes.

In order to minimise the credit risk, the Group conducts a review on the determination and approval of credit limits, and carries out other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Company considers that the Group's credit risk is significantly reduced.

The Group maintains its working capital with reputable banks. Therefore, the credit risk for such is minimal.

The Group has adopted necessary policies to ensure that all the trade customers have good credit history. Apart from the top five accounts receivable, the Group has no other significant concentration of credit risk.

Total amount of top 5 account receivables: RMB316,173,283.80.

(3) Liquidity risk

The liquidity risk is the Group's impossibility to perform its financial obligations after the maturity date. In the management of the liquidity risk, the Group monitors and maintains a level of working capital deemed adequate by the management to perform the Group's obligations, thus will not cause loss or damage to the reputation of the Group. Moreover, the Group analyses its debt structure and deadline regularly and maintains sufficient fund. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. Meanwhile, the management keeps in touch with financial institutions and makes consultations on financing issues, to maintain enough credit limits and mitigate liquidity risk.

The Group's main capital source is from borrowings from financial institutions. As at 31 December 2020, the Group's unused credit limit provided by the financial institutions was RMB567,336,700.00 (31 December 2019: RMB449,000,000.00), of which the short-term unused credit limit of short-term borrowings of the Group was RMB567,336,700.00 (31 December 2019: RMB399,000,000.00).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Objectives and policies of risk management (continued)

(3) Liquidity risk (continued)

The following table demonstrates the financial assets and financial liabilities held by the Group according to the maturity of undiscounted remaining contractual obligations:

Amount at 31 December 2020:

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets					
Monetary funds	759,979,803.03	—	—	—	759,979,803.03
Bills receivable	164,945,170.51	—	—	—	164,945,170.51
Accounts receivable	287,920,595.28	—	—	—	287,920,595.28
Financing receivables	33,575,777.00	—	—	—	33,575,777.00
Loans and advances	951,005.30	—	—	—	951,005.30
Other receivables	156,486,818.72	—	—	—	156,486,818.72
Financial liabilities					
Short-term borrowings	2,054,225,378.29	—	—	—	2,054,225,378.29
Bills payable	121,472,511.10	—	—	—	121,472,511.10
Accounts payables	648,352,428.48	—	—	—	648,352,428.48
Other payables	43,853,326.94	—	—	—	43,853,326.94
Non-current liabilities					
due within one year	139,784,923.46	—	—	—	139,784,923.46
Other current liabilities	50,195,434.08	—	—	—	50,195,434.08
Lease liabilities	—	4,968,359.84	—	—	4,968,359.84
Long-term borrowings	—	114,063,150.53	—	—	114,063,150.53
Long-term payables	—	4,585,000.00	—	—	4,585,000.00

2. Sensitivity analysis

The Group applies sensitivity to analyze the rationality of technical risk variables and the effects of possible changes on profit 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) Sensitivity analysis of foreign exchange

Foreign exchange risk sensibility analysis hypothesis: all the foreign operations and investments and cash flows are highly effective.



Notes to the Financial Statements

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Sensitivity analysis (continued)

(1) Sensitivity analysis of foreign exchange (continued)

Based on the above assumption, on the basis that all other variables are held constantly, the effects of reasonable changes in exchange rate that may arise on the profit and loss and equity for the period are set out below:

Item	Change in exchange rate	2020		2019	
		Effect on net profit	Effect on owners' equity	Effect on net profit	Effect on owners' equity
All foreign currencies	5% appreciation against RMB	9,870,299.53	9,870,299.53	8,496,140.81	8,496,140.81
All foreign currencies	5% depreciation against RMB	(9,870,299.53)	(9,870,299.53)	(8,496,140.81)	(8,496,140.81)

(2) Sensitivity analysis of interest rate risk

Sensitivity analysis of interest rate risk is based on the following assumptions:

Changes in market interest rate affect the interest income or expense of financial instruments at variable interest rate;

For fixed rate financial instruments measured at fair value, the changes in market interest rates only affect its interest income or expenses;

The changes in fair value of derivative financial instrument and other financial assets and liabilities were calculated by the discounted cash flow method with the market interest rate at the balance sheet date.

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 profit and loss and equity for the period after tax are set out below:

Item	Change in exchange rate	2020		2019	
		Effect on net profit	Effect on owners' equity	Effect on net profit	Effect on owners' equity
Variable-rate borrowings	Increased 1%	(2,707,292.50)	(2,707,292.50)	(2,656,155.56)	(2,656,155.56)
Variable-rate borrowings	Decreased 1%	2,707,292.50	2,707,292.50	2,656,155.56	2,656,155.56

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

IX. Fair value disclosures

As at 31 December 2020, the Group's financing 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 financial 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 financial assets and liabilities measured at fair value was immaterial.

X. Related Party and Related Party Transactions

1. Parent company of the Company

Description of the parent company of the Company

On 28 September 2020, Zhang En Rong, the original controlling shareholder and actual controller of the Company, and Shandong Shouguang Jinxin Investment Development Holdings Group Limited entered into the Voting Rights Nomination Agreement between Shandong Shouguang Jinxin Investment Development Holdings Group Limited and Zhang En Rong on the 29.53% Share of Shandong Molong Petroleum Machinery Company Limited. Pursuant to which, Zhang En Rong nominated Shouguang Jinxin to exercise all the voting rights corresponding to 235,617,000 shares of the Company held by him (accounting for 29.53% of the total share capital of the listed company). The controlling shareholder of the Company has changed to Shouguang Jinxin, and the actual controller of the Company has changed to the State-owned Assets Supervision and Administration Bureau of Shouguang City.

The ultimate controller of the Company is State-owned Assets Supervision and Administration Bureau of Shouguang City.

Other description:

(1) Registered capital of the controlling shareholder and its change

	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
Controlling shareholder				
Shouguang Jinxin	360,000,000.00	0.00	0.00	360,000,000.00

(2) Shares or interests held by controlling shareholder and changes of such shares and interests

Controlling shareholder	Amount of shareholding		Shareholding percentage (%)	
	Balance at the end of the year	Balance at the beginning of the year	Percentage at the end of year	Percentage at the beginning of year
Shouguang Jinxin	0.00	0.00	0.00	0.00



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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

X. Related Party and Related Party Transactions (continued)

1. Parent company of the Company (continued)

On 28 September 2020, Zhang En Rong, the original controlling shareholder and actual controller of the Company, and Shandong Shouguang Jinxin Investment Development Holdings Group Limited entered into the Voting Rights Nomination Agreement between Shandong Shouguang Jinxin Investment Development Holdings Group Limited and Zhang En Rong on the 29.53% Share of Shandong Molong Petroleum Machinery Company Limited. Pursuant to which, Zhang En Rong nominated Shouguang Jinxin to exercise all the voting rights corresponding to 235,617,000 shares of the Company held by him (accounting for 29.53% of the total share capital of the listed company). The controlling shareholder of the Company has changed to Shouguang Jinxin.

2. Subsidiaries of the Company

Subsidiaries of the Company are detailed in note IX.1.

3. Joint ventures and associates of the Company

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 joint venture or associate	Relationship with the Company
Karamay Yalong Oil Pump Company Limited	Associate of the Company

4. Other related party

Name of other related party	Relationship between other related party and the Company
Zhang En Rong	The original controlling shareholder and the actual controller of the Company during past twelve months
Shouguang Molong Cultural Transmission Co., Ltd.	Other company controlled by the original controlling shareholder during past twelve months
Shandong Shouguang Jinxin Investment Development Holdings Group Limited	Controlling shareholder of the Company
Shouguang Jinsheng Investment Co., Ltd. (壽光金盛投資有限公司)	A subsidiary of the controlling shareholder of the Company
Shandong Chiming Salt Chemistry Co., Ltd. (山東池銘鹽化有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Fuyuan Salt Co., Ltd. (壽光市富源鹽業有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Ronggeng Agricultural Technology Co., Ltd. (壽光融耕農業科技有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Jinhan Supply Chain Management Co, Ltd. (壽光金瀚供應鏈管理有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Tianyi New Energy Co., Ltd. (壽光天一新能源有限公司)	A subsidiary of the controlling shareholder of the Company

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1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

X. Related Party and Related Party Transactions (continued)

4. Other related party (continued)

Name of other related party	Relationship between other related party and the Company
Shouguang Heda Polar Ocean World Co., Ltd. (壽光合達極地海洋世界有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Rongyuan Agricultural Technology Co., Ltd. (壽光市融源農業科技有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Fenghui Agricultural Technology Co., Ltd. (壽光市豐匯農業科技有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Xinjing Tourism Development Co., Ltd. (壽光市鑫景旅遊發展有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Judianhu Haohan Joy Land Playground Co., Ltd. (壽光市汜澱湖浩瀚歡樂世界遊樂園有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Judianhu Haoyang Water World Playground Co., Ltd. (壽光市汜澱湖浩洋水世界遊樂園有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Haoyang Catering Co., Ltd. (壽光市浩洋餐飲有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Gaoxin District Infrastructure Development Co., Ltd. (壽光市高新區基礎設施開發有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Jintou Heating Power Co., Ltd. (壽光市金投熱力有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Guoyu New Energy Co., Ltd. (壽光市國譽新能源科技有限公司)	A subsidiary of the controlling shareholder of the Company
Shandong Longxing Plastic Film Technology Co., Ltd. (山東龍興塑膜科技股份有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Construction Engineering Quality Testing Co., Ltd. (壽光市建設工程品質檢測有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Fruit and Vegetable Variety Right Transaction Center Co., Ltd. (壽光果菜品種權交易中心有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Jindun Motorist Training Limited Company (壽光市金盾機動車駕駛員培訓有限責任公司)	A subsidiary of the controlling shareholder of the Company
Shandong Global Software Co., Ltd. (山東環球軟件股份有限公司)	A subsidiary of the controlling shareholder of the Company
Shandong Nongsheng Information Technology Co., Ltd. (山東農聖資訊科技有限公司)	A subsidiary of the controlling shareholder of the Company
Shandong Wohua Health Technology Co., Ltd. (山東沃華健康科技有限公司)	A subsidiary of the controlling shareholder of the Company
Global Wohua (Beijing) Software Technology Co., Ltd. (環球沃華(北京)軟件科技有限公司)	A subsidiary of the controlling shareholder of the Company
Shouguang Xingyunganghang Investment Management Center (Limited Partnership) (壽光市星雲港航投資管理中心(有限合夥))	A subsidiary of the controlling shareholder of the Company
Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司)	A company served by directors and senior management of the Company



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

X. Related Party and Related Party Transactions (continued)

4. Other related party (continued)

Name of other related party	Relationship between other related party and the Company
Shouguang Jintou Asset Management Co., Ltd. (壽光市金投資產管理有限公司)	A company served by directors and senior management of the Company
Shouguang Jintou Culture Industry Development Co., Ltd. (壽光市金投文化產業發展有限公司)	A company served by directors and senior management of the Company
Shouguang Jintou Non Financing Guarantee Co., Ltd. (壽光市金投非融資性擔保有限公司)	A company served by directors and senior management of the Company
Weifang Jinxuan Equity Investment Fund Management Co., Ltd. (濰坊金萱股權投資基金管理有限公司)	A company served by directors and senior management of the Company
Kunpeng Qinghai Asset Management Co., Ltd. (昆朋青海資產管理股份有限公司)	A company served by directors and senior management of the Company
Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	A company served by directors and senior management of the Company

5. Related party transactions

(1) Related party transactions regarding the purchase and sale of goods and provision and receipt of services

Sale of goods/rendering of services

Unit: RMB

Related party	Subject matter of the related party transaction	Amount for the period	Amount for the last period
Karamay Yalong Petroleum Machinery Co., Ltd.	Oil pumping units and accessories	1,930,952.50	3,917,106.80

(2) Related guarantees

The Company as a guarantor

Unit: RMB

Guaranteed party	Guarantee amount	Commencement date of the guarantee	Expiry date of the guarantee	Has the guarantee fulfilled
Shouguang Maolong	192,408,495.33	30 June 2020	30 June 2023	No

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

X. Related Party and Related Party Transactions (continued)

5. Related party transactions (continued)

(2) Related guarantees (continued)

Description:

On 15 May 2020, Resolution on the Provision of Guarantee for Shouguang Maolong was considered and approved at the third extraordinary meeting of the sixth session of the Board of the Company. It was agreed that Shouguang Maolong (a wholly-owned subsidiary) should commence the provision of comprehensive financial services with China Great Wall Asset Management Co., Ltd. Shandong Branch with a total amount of not exceeding RMB20,000 ten thousand and with a term up to 36 months. The Company, Shouguang Baolong and Weihai Baolong provided guarantee for Shouguang Maolong to conduct the aforementioned business by pledging certain property and land use right, respectively, which had been considered and approved at 2019 general meeting of the Company. Please refer to Announcement No. 2020-030 of cninfo.com (巨潮資訊網) (www.cninfo.com.cn) for details.

The Company as a guaranteed party

Unit: RMB

Guarantor	Guarantee amount	Commencement date of the guarantee	Expiry date of the guarantee	Has the guarantee fulfilled
Zhang En Rong	50,011,900.00	09 October 2017	08 October 2020	Yes
Zhang En Rong	163,800,000.00	30 November 2017	29 December 2020	Yes
Zhang En Rong	250,000,000.00	07 December 2018	07 December 2020	Yes
Zhang En Rong	192,408,495.33	30 June 2020	30 June 2023	No

Descriptions of related guarantees

During the reporting period, Mr. Zhang En Rong, the original controlling shareholder of the Company, pledged part of the shares of the Company held by him to secure the financing granted to the Company.

On 15 May 2020, the third extraordinary meeting of the sixth session of the Board of the Company considered and passed the Resolution on the Provision of Guarantee for Shouguang Maolong. It was agreed that Shouguang Maolong (a wholly-owned subsidiary) should commence the provision of comprehensive financial services with China Great Wall Asset Management Co., Ltd. Shandong Branch with a total amount of not exceeding RMB20,000 ten thousand, and that Mr. Zhang En Rong, the original controlling shareholder and actual controller of the Company, should provide joint liability guarantee in respect of the commencement of the above business by Shouguang Maolong.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

X. Related Party and Related Party Transactions (continued)

5. Related party transactions (continued)

(3) Loans and borrowings from related parties

Unit: RMB

Related party	Amount of loans and borrowings	Commencement date	Expiry date	Description
Borrowings				
Shouguang Jinxin	85,000,000.00	26 November 2020	14 December 2020	—
Shouguang Jinxin	115,000,000.00	02 December 2020	14 December 2020	—
Shouguang Jinxin	50,000,000.00	02 December 2020	18 December 2020	—
Shouguang Jinxin	100,000,000.00	02 December 2020	—	—

Description:

In order to support the Company's business development and reduce financing costs and as approved by the Company's fifth extraordinary meeting of the sixth session of the Board and the Company's 2020 first extraordinary general meeting, Shouguang Jinxin, the Company's controlling shareholder, has provided financial assistance up to RMB 350 million with a term no more than 1 year. Such amount can be reused within the limit of loan and valid period and the interest rate of which was determined by referring to the market interest rate. The Company is not required to provide any form of security such as guarantees, mortgages and pledges for the financial support. As of 31 December 2020, the Company used its loan balance of RMB100 million.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

X. Related Party and Related Party Transactions (continued)

5. Related party transactions (continued)

(4) Compensation of key management personnel

- ① Details of the remuneration of the directors, supervisors and senior management of the Company in 2020 are set out below:

Unit: RMB

Name	Fees (or allowance)	Wages	Retirement scheme contribution	Allowances and benefits	Total
Executive directors					
Yang Yun Long	0.00	0.00	0.00	0.00	0.00
Yuan Rui	0.00	0.00	0.00	0.00	0.00
Liu Min	0.00	341,054.02	22,366.83	3,320.00	366,740.85
Li Zhi Xin	0.00	394,727.17	10,266.30	15,106.46	420,099.93
Sub-total	0.00	735,781.19	32,633.13	18,426.46	786,840.78
Non-executive directors					
Yao You Ling	73,684.22	0.00	0.00	0.00	73,684.22
Wang Quan Hong	0.00	0.00	0.00	0.00	0.00
Sub-total	73,684.22	0.00	0.00	0.00	73,684.22
Independent non-executive directors					
Tang Qing Bin	113,157.90	0.00	0.00	0.00	113,157.90
Song Zhi Wang	113,157.90	0.00	0.00	0.00	113,157.90
Cai Zhong Jie	113,157.90	0.00	0.00	0.00	113,157.90
Sub-total	339,473.70	0.00	0.00	0.00	339,473.70
Supervisors					
Wei Zhao Qiang	0.00	143,809.98	17,892.86	14,141.12	175,843.96
Wang Ming Hua	35,714.28	0.00	0.00	0.00	35,714.28
Liu Bo	35,714.28	0.00	0.00	0.00	35,714.28
Sub-total	71,428.56	143,809.98	17,892.86	14,141.12	247,272.52
Other senior management					
Liu Yun Long	0.00	554,749.75	22,366.83	13,283.24	590,399.82
Zhao Xiao Tong	0.00	164,699.19	15,238.03	2,880.00	182,817.22
Zhang Yu Zhi (Retired)	0.00	321,117.63	0.00	9,051.88	330,169.51
Sub-total	0.00	1,040,566.57	37,604.86	25,215.12	1,103,386.55
Total	484,586.48	1,920,157.74	88,130.85	57,782.70	2,550,657.77

Note: Allowances and benefits included longevity allowance and meal allowance.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

X. Related Party and Related Party Transactions (continued)

5. Related party transactions (continued)

(4) Compensation of key management personnel (continued)

- ② Details of the remuneration of the directors, supervisors and senior management of the Company in 2019 are set out below:

Unit: RMB

Name	Fees (or allowance)	Wages	Retirement scheme contribution	Allowances and benefits	Total
Executive directors					
Liu Yun Long	0.00	658,822.64	24,889.83	12,413.46	696,125.93
Li Zhi Xin	0.00	462,388.48	27,347.91	11,078.82	500,815.21
Liu Min	0.00	407,090.16	27,347.91	3,131.91	437,569.98
Zhang Yu Zhi	0.00	381,686.97	0.00	9,570.00	391,256.97
Sub-total	0.00	1,909,988.25	79,585.65	36,194.19	2,025,768.09
Non-executive directors					
Yao You Ling	0.00	0.00	0.00	0.00	0.00
Wang Quan Hong	0.00	0.00	0.00	0.00	0.00
Sub-total	0.00	0.00	0.00	0.00	0.00
Independent non-executive directors					
Tang Qing Bin	127,266.67	0.00	0.00	0.00	127,266.67
Song Zhi Wang	127,266.67	0.00	0.00	0.00	127,266.67
Cai Zhong Jie	127,266.67	0.00	0.00	0.00	127,266.67
Sub-total	381,800.01	0.00	0.00	0.00	381,800.01
Supervisors					
Wei Zhao Qiang	0.00	172,135.55	18,558.53	12,923.17	203,617.25
Wang Ming Hua	37,600.00	0.00	0.00	0.00	37,600.00
Liu Bo	37,600.00	0.00	0.00	0.00	37,600.00
Sub-total	75,200.00	172,135.55	18,558.53	12,923.17	278,817.25
Other senior management	0.00	0.00	0.00	0.00	0.00
Total	457,001.01	2,082,123.80	98,144.18	49,117.36	2,686,385.35

Note: Allowances and benefits included longevity allowance and meal allowance.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

X. Related Party and Related Party Transactions (continued)

5. Related party transactions (continued)

(4) Compensation of key management personnel (continued)

- ③ During the year, the five highest paid individuals of the Company included two (last year: three) directors and three (last year: two) other personnel. The remuneration of the three other personnel ranged from RMB0 to RMB90 ten thousand.

Remuneration of the highest paid individuals:

Item	Unit: RMB	
	Amount for the year	Amount for the last year
Fees (or allowance)	0.00	0.00
Wages	2,075,726.34	2,449,232.16
Retirement scheme contribution	99,733.62	134,281.47
Allowances and benefits	51,530.94	45,512.66
Total	2,226,990.90	2,029,626.29

The remunerations of the highest paid individuals were within the following bands (by number of individuals):

Band of annual remuneration	Number of individuals of the year	Number of individuals of last year
RMB0–RMB90 ten thousand (equivalent to HKD0–HKD100 ten thousand)	5	5
Total	5	5

Note: Allowances and benefits included longevity allowance and meal allowance.

- ④ For the financial year ended 31 December 2020, no other bonuses, which are discretionary or are based on the results of the Company, the Group or any member of the Group, were paid to or receivable by directors and the five highest paid individuals, and no remuneration were paid by the Company to any director, supervisor or the five highest paid individuals as inducement to join or as incentive upon joining the Company or as compensation for loss of office. During the year, none of the directors waived or agreed to waive any remuneration.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

X. Related Party and Related Party Transactions (continued)

5. Related party transactions (continued)

(5) Other related party transactions

The Group had no other related party transactions or continuing related party transactions.

6. Amounts due from and due to related parties

(1) Receivables

Unit: RMB

Items	Related party	Balances at the end of the period		Balances at the beginning of the period	
		Book balance	Provision of bad debts	Book balance	Provision of bad debts
Accounts receivable	Karamay Yalong Petroleum Machinery Co., Ltd	4,406,682.29	1,134,172.74	3,604,705.96	36,047.06

XI. Share-based payments

1. Share-based payments

Applicable Not applicable

2. Equity-settled share-based payments

Applicable Not applicable

3. Cash-settled share-based payments

Applicable Not applicable

4. Revision and termination of share-based payments

Nil

5. Others

The Group had no share-based payments during the year.



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XII. Commitments and contingencies

1. Material commitments

Material commitments at balance sheet date

The Group did not have any capital commitment at the end of the year. The Group has initiated the related work for factory relocation. As the relevant new factories are under design, the specific amount of expenses has not been completely determined.

2. Contingencies

(1) Material contingencies at balance sheet date

As of the date of the financial statements, the claims against the Company by investors regarding false statements about securities have been accepted by the Ji'nan Intermediate People's Court, and the aggregate amount of money involved in was RMB120,057,935.29. Currently, the total amount in cases that have been considered or closed through mediation is RMB102,371,348.16, with actual settlement amount of RMB57,625,145.83. For those closed cases, the Company is performing its obligations according to the judgment results; for other ongoing cases, an amount involved in first instance judgement of RMB4,218,964.87 was included in estimated liabilities while for cases that have been heard but pending judgment and those that have not been heard, an estimated liabilities of RMB10,173,859.77 was provided at a rate of 85% with reference to the preceding closed cases. The total amount of estimated liabilities provided for this matter by the Company was RMB72,017,970.47.

(2) To state that the company has no material contingency that needs to be disclosed

The Company had no material contingency that needs to be disclosed.

3. Others

Save as disclosed above, the Group has no other significant contingencies.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XIII. Events subsequent to balance sheet date

1. Profit Distribution

Unit: RMB

Proposed profit distribution and dividend	0.00
Profits or dividends declared upon consideration and approval	0.00

2. Sales Return

As of the date of these financial statements, the Group had no sales return.

3. Descriptions of other subsequent events

(1) Impacts of the novel coronavirus disease pandemic

Since the outbreak of the COVID-19 epidemic at home and abroad in January 2020, the prevention and control of the COVID-19 has been ongoing worldwide. China has made considerable achievements in the prevention and control of the COVID-19 epidemic, but there are still sporadic cases in several regions. The Group's operating results in first quarter was materially and adversely affected by the epidemic broken in some areas of Hebei Province in January 2021 as some customers of the Company were located in Hebei. As of the date of this financial statement, the epidemic in Hebei has been eliminated and also the adverse impact on the Company's operation. The Group will continue to closely review the changes in the COVID-19 epidemic and proactively address the adverse impact on the production and operation of the Group.

(2) Change of controlling shareholders

On 23 February 2021, Mr. Zhang En Rong, the original actual controller of the Company, entered into the Share Transfer Agreement with 壽光墨龍控股有限公司 (Shouguang Molong Holdings Co., Ltd.) ("Molong Holdings", a wholly-owned subsidiary of Shouguang Jinxin). Mr. Zhang En Rong transferred 235,617,000 A shares of the Company (representing 29.53% of the total share capital of the Company) held by him to Molong Holdings at a price of RMB3.50 per share by way of transfer agreement with a total transfer price of RMB824,659,500. On 24 March 2021, the Company received the Confirmation of Securities Transfer Registration from Molong Holdings and the registration formalities in relation to the Share Transfer Agreement were completed on 23 March 2021. After the completion of the equity transfer, Molong Holdings directly holds 235,617,000 shares of the listed company, representing 29.53% of the total share capital of the listed company, and has become the controlling shareholder of the listed company. The period of voting rights entrusted to Shouguang Jinxin was terminated and the actual controller of the listed company remained the State-owned Assets Supervision and Administration Bureau of Shouguang City.

(3) Other than the subsequent event as disclosed above, the Group had no other material subsequent events.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XIV. Other significant events

1. Segment information

(1) Basis for determining reportable segments and accounting policies

(1) Basis for determining reportable segments

According to the internal organisational structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 5 reportable segments. The Group identifies 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, three kinds of pumping units, petroleum machinery, tube blanks parts, high-end castings and forgings and others.

(2) Accounting policies of reportable segments

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 financial statements.

(2) Financial information of reportable segments

Unit: RMB

Item	Pipe products	Three kinds of pumping units	Petroleum machinery parts	Tube blank	High-end castings and forgings	Others	Unallocated item	Total
Operating revenue	—	—	—	—	—	—	—	—
External revenue	2,458,265,692.32	40,046,101.68	8,346,558.77	178,497,433.73	241,350,397.49	83,212,845.67	—	3,009,719,029.66
Inter-segment revenue	—	—	—	—	—	—	—	0.00
Total segment operating revenue	2,458,265,692.32	40,046,101.68	8,346,558.77	178,497,433.73	241,350,397.49	83,212,845.67	—	3,009,719,029.66
Total operating revenue in financial statements	2,458,265,692.32	40,046,101.68	8,346,558.77	178,497,433.73	241,350,397.49	83,212,845.67	—	3,009,719,029.66
Segment expenses	2,400,298,628.64	36,892,701.49	5,804,696.92	195,779,958.71	226,944,660.53	70,686,641.19	—	2,936,407,287.48
Segment operating profit	57,967,063.68	3,153,400.19	2,541,861.85	(17,282,524.98)	14,405,736.96	12,526,204.48	—	73,311,742.18
Adjusted for:	—	—	—	—	—	—	—	—
Administrative expenses	—	—	—	—	—	—	194,470,836.86	194,470,836.86
Research and development expenditures	—	—	—	—	—	—	52,542,810.96	52,542,810.96
Finance expenses	—	—	—	—	—	—	159,212,583.52	159,212,583.52
Investment income	—	—	—	—	—	—	(39,767.09)	(39,767.09)
Gain on disposal of assets	—	—	—	—	—	—	353,358,239.23	353,358,239.23
Other income	—	—	—	—	—	—	17,770,915.00	17,770,915.00
Operating profit in financial statements	57,967,063.68	3,153,400.19	2,541,861.85	(17,282,524.98)	14,405,736.96	12,526,204.48	(35,136,844.20)	38,174,897.98
Non-operating income	—	—	—	—	—	—	7,928,370.13	7,928,370.13
Non-operating expenses	—	—	—	—	—	—	28,574,721.15	28,574,721.15
Total profit	57,967,063.68	3,153,400.19	2,541,861.85	(17,282,524.98)	14,405,736.96	12,526,204.48	(55,783,195.22)	17,528,546.96
Income tax	—	—	—	—	—	—	6,073,146.60	6,073,146.60
Net profit	57,967,063.68	3,153,400.19	2,541,861.85	(17,282,524.98)	14,405,736.96	12,526,204.48	(61,856,341.82)	11,455,400.36
Total segment assets	3,913,996,219.73	89,170,749.57	19,943,259.66	111,742,444.61	134,010,523.94	227,217,376.27	679,555,241.60	5,175,635,815.38
Total segment liabilities	1,652,442,085.04	19,864,461.62	11,513,612.40	40,794,472.59	98,562,812.69	28,616,772.13	1,522,271,709.11	3,374,065,925.58



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XIV. Other significant events (continued)

2. Other significant transactions and items affecting decision-making of investors

In 2020 and 2019, 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:

External revenue	Amount for the year	Amount for the last year
PRC (except Hong Kong)	2,717,360,137.40	3,724,722,383.35
Hong Kong	0.00	0.00
Other overseas regions	292,358,892.26	664,181,832.56
Total	3,009,719,029.66	4,388,904,215.91

XV. Notes to principal items in the financial statements of the parent Company

1. Accounts receivable

(1) Disclosure of accounts receivable by type

Unit: RMB

Type	Balance at the end of the period					Balance at the beginning of the period				
	Book balance		Provision for bad debts			Book balance		Provision for bad debts		
	Amount	Percentage	Amount	Provision rate	Book value	Amount	Percentage	Amount	Provision rate	Book value
Accounts receivable provided for bad debts on an individual basis	17,365,734.73	3.07%	3,473,146.95	20.00%	13,892,587.78	19,965,734.73	2.69%	3,993,146.95	20.00%	15,972,587.78
Including:										
Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk	17,365,734.73	3.07%	3,473,146.95	20.00%	13,892,587.78	19,965,734.73	2.69%	3,993,146.95	20.00%	15,972,587.78
Accounts receivable provided for bad debts on a collective basis	548,106,670.52	96.93%	119,767,193.27	31.33%	428,339,477.25	722,320,168.54	97.31%	123,822,853.21	20.70%	598,497,315.33
Including:										
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	382,304,367.10	67.61%	119,767,193.27	31.33%	262,537,173.83	598,161,430.94	80.58%	123,822,853.21	20.70%	474,338,577.73
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on associates under consolidation	165,802,303.42	29.32%	—	—	165,802,303.42	124,158,737.60	16.73%	—	—	124,158,737.60
Total	565,472,405.25	—	123,240,340.22	—	442,232,065.03	742,285,903.27	—	127,816,000.16	—	614,469,903.11

Provision for bad debts on an individual basis: Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

1. Accounts receivable (continued)

(1) Disclosure of accounts receivable by type (continued)

Unit: RMB

Name	Balance at the end of the period			
	Book balance	Provision for bad debts	Provision rate	Reason for provision
Hebei Zhongtai Steel Pipe Manufacture Co., Ltd. (河北中泰鋼管製造有限公司)	17,365,734.73	3,473,146.95	20.00%	Provision was made based on the amount of expected credit loss of the customer
Total	17,365,734.73	3,473,146.95	—	—

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

Name	Balance at the end of the period		
	Book balance	Provision for bad debts	Provision rate
Within 1 year	258,532,525.49	2,585,325.25	1.00%
1–2 years	8,635,430.56	4,317,715.28	50.00%
2–3 years	168,705.00	126,528.75	75.00%
3–4 years	2,109,650.15	1,793,202.63	85.00%
4–5 years	12,757,563.59	10,843,929.05	85.00%
Over 5 years	100,100,492.31	100,100,492.31	100.00%
Total	382,304,367.10	119,767,193.27	—



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

1. Accounts receivable (continued)

(1) Disclosure of accounts receivable by type (continued)

Provision 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 associates under consolidation

Unit: RMB

Name	Balance at the end of the period		
	Book balance	Provision for bad debts	Provision rate
Shouguang Maolong New Materials Technology Development Co., Ltd.	19,024,724.27	0.00	0.00%
MPM INTERNATIONAL LIMITED	146,777,579.15	0.00	0.00%
Total	165,802,303.42	0.00	—

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

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

1. Accounts receivable (continued)

(1) Disclosure of accounts receivable by type (continued)

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	405,310,104.64
1 to 2 years	8,635,430.56
2 to 3 years	14,720,356.89
Over 3 years	136,806,513.16
3 to 4 years	6,582,722.53
4 to 5 years	17,776,652.99
Over 5 years	112,447,137.64
Total	565,472,405.25

(2) Provision, recovery or reversal of provision for bad debts for the period

Provisions for bad debts for the period:

Unit: RMB

Type	Balance at the beginning of the period	Movement during the period				Balance at the end of the period
		Provision	Recovery or reversal	Write-off	Other	
Provisions for bad debts of accounts receivable	127,816,000.16	(4,575,659.94)	0.00	0.00	0.00	123,240,340.22
Total	127,816,000.16	(4,575,659.94)	0.00	0.00	0.00	123,240,340.22

(3) Accounts receivables written off during the period

The Company did not write off any accounts receivable during the year.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

1. Accounts receivable (continued)

(4) Balance of top five accounts receivable as at the end of the period by debtor

Unit: RMB

Name of entity	Balance of accounts receivable at the end of the period	Percentage to the total balance of accounts receivable at the end of the period	Balance of bad debts at the end of the period
Entity I	146,777,579.15	25.96%	0.00
Entity II	98,065,319.25	17.34%	980,653.19
Entity III	81,882,027.75	14.48%	2,952,026.43
Entity IV	71,396,459.74	12.62%	713,964.60
Entity V	45,678,343.35	8.08%	45,678,343.35
Total	443,799,729.24	78.48%	—

(5) Account receivables that were derecognized on transfer of financial assets

As at 31 December 2020, the Company had no accounts receivable that were derecognised on transfer of financial assets.

(6) Amount of assets or liabilities for which accounts receivable have been transferred but involvement continues

As at 31 December 2020, the Company had no assets or liabilities for which accounts receivable have been transferred but involvement continues.

Other description:

As at 31 December 2020, the right-of-use for accounts receivables of RMB 29,368,652.94 of the Company was restricted due to factoring financing.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

2. Other receivables

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Interests receivable	0.00	2,308,030.91
Other receivables	756,323,484.10	739,726,291.37
Total	756,323,484.10	742,034,322.28

(1) Interests receivable

1) *Classification of interests receivable*

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Interests on security deposits	0.00	2,308,030.91
Total	0.00	2,308,030.91

2) *Significant overdue interest*

The Company had no interests receivable past due.

3) *Provision for bad debts*

Applicable Not applicable



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

2. Other receivables (continued)

(2) Other receivables

1) Other receivables by payment nature

Unit: RMB

Payment nature	Balance at the end of the period	Balance at the beginning of the period
Staff turnover loans	1,155,000.00	1,189,754.00
Deposits/caution money	1,494,947.00	3,589,758.00
Amounts due from administrative entities	0.00	14,530,000.00
Other amounts due from individuals	152,950,899.25	1,401,519.59
Related parties under consolidation	601,528,286.61	721,885,257.16
Less: Provision for bad debts of other receivables	(805,648.76)	(2,869,997.38)
Total	756,323,484.10	739,726,291.37

2) Provision for bad debts

Unit: RMB

Provision for bad debts	Stage 1	Stage 2	Stage 3	Total
	Next 12-month expected credit loss	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Balance at 1 January 2020	200,027.82	2,669,969.56	0.00	2,869,997.38
Transfer of balance at 1 January 2020	—	—	—	—
Provision for the period	585,789.73	0.00	0.00	585,789.73
Reversal for the period	0.00	2,650,138.35	0.00	2,650,138.35
Balance at 31 December 2020	785,817.55	19,831.21	0.00	805,648.76

Movement of book balance of significant change in provision for the period

Applicable Not applicable

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

2. Other receivables (continued)

(2) Other receivables (continued)

2) Provision for bad debts (continued)

Disclosure by age

Unit: RMB

Age	Balance
1 year (inclusive)	660,332,277.43
1 to 2 years	16,632.00
2 to 3 years	401,576.58
Over 3 years	96,378,646.85
3 to 4 years	87,576,960.75
4 to 5 years	7,620,000.00
Over 5 years	1,181,686.10
Total	757,129,132.86

3) Provision, recovery or reversal of provision for bad debts for the period

Provisions for bad debts for the period:

Unit: RMB

Type	Balance at the beginning of the period	Movement during the period				Balance at the end of the period
		Provision	Recovery or reversal	Write-off	Other	
Provisions for bad debts of other receivables	2,869,997.38	585,789.73	2,650,138.35	0.00	0.00	805,648.76
Total	2,869,997.38	585,789.73	2,650,138.35	0.00	0.00	805,648.76

4) Other receivables written off during the period

There is no actual write-off of other receivables during the year.



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

2. Other receivables (continued)

(2) Other receivables (continued)

5) Balance of top five other receivables as at the end of the period by debtor

Unit: RMB

Name of entity	Nature of payment	Balance at the end of the period	Age	Percentage to the total amount of closing balance of other receivables	Balance of bad debt provision at the end of the period
Shouguang Maolong New Materials Technology Development Co., Ltd.	Current accounts with other entities	503,845,855.73	Within 1 year	66.55%	0.00
Shandong Shouguang Vegetable Wholesale Market Co., Ltd. (山東壽光蔬菜批發市場有限公司)	Current accounts with other entities	152,808,000.00	Within 1 year	20.18%	768,480.00
Shouguang Molong Logistic Co., Ltd.	Current accounts with other entities	97,682,430.88	Within 5 year	12.90%	0.00
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)	Caution money	914,947.00	Within 1 year	0.12%	0.00
Diao Shi Jin	Staff turnover loans	300,000.00	Within 1 year	0.04%	0.00
Total	—	755,551,233.61	—	99.79%	768,480.00

6) *Receivable involving government grants*

Nil

7) *Other receivables derecognised due to transfer of financial assets*

As at 31 December 2020, the Company had no other receivables that were derecognised due to transfer of financial assets.

8) *Amount of assets and liabilities for which other receivables have been transferred but involvement continues*

As at 31 December 2020, the Company had no assets or liabilities for which the other receivables have been transferred but involvement continues.

Other description:

As at 31 December 2020, no other receivables were used by the Company as a pledge.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

3. Long-term equity investments

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	1,352,019,921.73	208,000,000.00	1,144,019,921.73	1,352,019,921.73	208,000,000.00	1,144,019,921.73
Total	1,352,019,921.73	208,000,000.00	1,144,019,921.73	1,352,019,921.73	208,000,000.00	1,144,019,921.73

(1) Investment in subsidiaries

Unit: RMB

Investee	Movement during the period					Balance at the end of the period (Book value)	Balance of impairment provision at the end of the period
	Balance at the beginning of the period (Book value)	Increase in investment	Decrease in investment	Charge for impairment provision	Others		
Shouguang Maolong	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	—
Molong I&E	10,000,000.00	—	—	—	—	10,000,000.00	—
Total	1,144,019,921.73	—	—	—	—	1,144,019,921.73	208,000,000.00



Notes to the Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

4. Operating revenue and operating cost

Unit: RMB

Item	Amount for the period		Amount for the last period	
	Revenue	Cost	Revenue	Cost
Principal operations	2,414,149,170.68	2,309,477,590.16	3,508,230,127.77	3,108,782,121.22
Other operations	130,473,717.29	124,989,256.24	152,716,659.91	148,080,302.64
Total	2,544,622,887.97	2,434,466,846.40	3,660,946,787.68	3,256,862,423.86

Relevant information of revenue:

Unit: RMB

Contract category	Pipe products	Three kinds of pumping units	Petroleum machinery parts	Others	Total
Type of goods					
Including:					
Pipe products	2,366,917,933.25	—	—	—	2,366,917,933.25
Three kinds of pumping units	—	40,046,101.67	—	—	40,046,101.67
Petroleum machinery parts	—	—	7,181,782.09	—	7,181,782.09
Others	—	—	—	130,477,070.96	130,477,070.96
By business location					
Including:					
China	2,085,527,281.66	36,361,546.12	0.00	130,475,336.76	2,252,364,164.54
Outside China	281,390,651.59	3,684,555.55	7,181,782.09	1,734.20	292,258,723.43
Type of contracts					
Including:					
Revenue recognised at a point in time	2,366,917,933.25	40,046,101.67	7,181,782.09	130,477,070.96	2,544,622,887.97
Total	2,366,917,933.25	40,046,101.67	7,181,782.09	130,477,070.96	2,544,622,887.97

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.

Notes to the Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the parent Company (continued)

4. Operating revenue and operating cost (continued)

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 RMB 358,000,000.00 at the end of the reporting period, of which RMB 358,000,000.00 is expected to be recognised as revenue in 2021.

Other description:

Among the revenue recognized for the year, the amount included in contract liability at the end of last year is RMB2,805.91 ten thousand.

5. Investment income

Item	Amount for the period	Unit: RMB
		Amount for the last period
Gain from long-term equity investments accounted for using the equity method	0.00	1,216,420.49
Total	0.00	1,216,420.49



Supplementary Information on Financial Statements

1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XVI. Supplemental information

1. Statement of extraordinary profit or loss for the period

Applicable Not applicable

Unit: RMB

Item	Amount	Description
Gain or loss on disposal of non-current assets	350,931,281.92	Mainly comprised of revenue from the sales of part of the land and fixtures by the Company.
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	17,770,915.00	Mainly due to the Company's corporate support subsidies received.
Profit or loss arising from contingencies unrelated to the normal business operations of the Company	(25,358,236.00)	Mainly comprised of the provision for compensations for claims related to investors' litigation in the current period.
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	202,596.63	Mainly comprised of revenue from the Company's bank financial management products in the current period.
Reversal of provision for impairment of receivable and contract assets that are individually tested for impairment	520,000.00	Mainly due to the Company's recovery of part of the receivables that has been separately tested for impairment.
Other non-operating income and expenses other than the above	7,138,842.29	Mainly comprised of the revenue received from breach of contract claims in the current period.
Less: Effect on income tax	51,780,307.55	—
Effect on minority interests	250,622.22	—
Total	299,174,470.07	—

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

Supplementary Information on Financial Statements



1 January 2020 to 31 December 2020

(Unless otherwise indicated, all figures are stated in RMB)

XVI. Supplemental information (continued)

2. Return on net assets and earnings per share

Profit for the reporting period	Weighted average return on net assets	Earnings per share	
		Basic (RMB/Share)	Diluted (RMB/Share)
Net profit attributable to ordinary shareholders of the Company	1.82%	0.04	0.04
Net profit attributable to ordinary shareholders of the Company after extraordinary profit or loss	-15.14%	(0.33)	(0.33)

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) Difference in net profit and net assets in financial statements as disclosed in accordance with IASs and PRC GAAP

Applicable Not applicable

(2) Difference in net profit and net assets in the financial statements as disclosed under the overseas accounting standards and PRC GAAP

Applicable Not applicable

(3) Reason(s) for accounting difference between domestic and international accounting standards; if adjustment has been made to data audited by overseas audit firm, specify the name of the overseas audit firm

Nil



XIV. 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.

